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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

## FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2016**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from __________ to __________**

Commission file number 000-55430

RESOURCE REAL ESTATE OPPORTUNITY REIT II

**Resource Real Estate Opportunity REIT II, Inc.**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Maryland** | **80-0854717** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**1845 Walnut Street, 18th Floor, Philadelphia, PA, 19103**

(Address of principal executive offices) (Zip code)

**(215) 231-7050**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer ☐ | | Accelerated filer | ☐ |
| Non-accelerated filer ☐ | (Do not check if a smaller reporting company) | Smaller reporting company | ☑ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

As of November 10, 2016, there were 58,812,287 outstanding shares of common stock of Resource Real Estate Opportunity REIT II, Inc.

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## Forward-Looking Statements

Certain statements included in this Quarterly Report on Form 10-Q are forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "could," "estimate," "expects," "intend," "may," "plan," "potential," "project," "should," "will" and "would" or the negative of these terms or other comparable terminology. Actual results may differ materially from those contemplated by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances after the date of this report, except as may be required under applicable law.

## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

**RESOURCE REAL ESTATE OPPORTUNITY REIT II, INC.**
**CONSOLIDATED BALANCE SHEETS**
(in thousands, except share data)

| | September 30, 2016 (unaudited) | December 31, 2015 |
|---|---|---|
| **ASSETS** | | |
| Investments: | | |
| Rental properties, net | $ 655,410 | $ 388,157 |
| Identified intangible assets, net | 1,704 | 3,882 |
| | 657,114 | 392,039 |
| Cash | 182,700 | 180,826 |
| Restricted cash | 7,584 | 3,901 |
| Tenant receivables, net | 49 | 17 |
| Due from related parties | 647 | 363 |
| Subscriptions receivable | — | 7,614 |
| Prepaid expenses and other assets | 1,219 | 2,260 |
| Deferred offering costs | — | 1,937 |
| Total assets | $ 849,313 | $ 588,957 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Liabilities: | | |
| Mortgage notes payable, net | $ 417,915 | $ 152,917 |
| Accounts payable and accrued expenses | 13,674 | 5,942 |
| Due to related parties | 826 | 6,035 |
| Tenant prepayments | 498 | 314 |
| Security deposits | 1,018 | 572 |
| Distributions payable | 8,788 | 2,778 |
| Derivative liability | 273 | 127 |
| Total liabilities | 442,992 | 168,685 |
| Stockholders' equity: | | |
| Preferred stock (par value $.01, 10,000,000 shares authorized, none issued and outstanding) | — | — |
| Convertible stock (par value $.01; 50,000 shares authorized, 50,000 issued and outstanding) | 1 | 1 |
| Common stock (par value $.01; 1,000,000,000 shares authorized, 58,665,120 and 52,696,985 issued and outstanding at September 30, 2016 and December 31, 2015, respectively) | 586 | 526 |
| Additional paid-in capital | 516,521 | 465,448 |
| Accumulated other comprehensive loss | (223) | (117) |
| Accumulated deficit | (110,564) | (45,586) |
| Total stockholders' equity | 406,321 | 420,272 |
| Total liabilities and stockholders' equity | $ 849,313 | $ 588,957 |

The accompanying notes are an integral part of these consolidated financial statements.

**RESOURCE REAL ESTATE OPPORTUNITY REIT II, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**
(in thousands, except per share data)
(unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Revenues:** | | | | |
| Rental income | $ 15,143 | $ 3,872 | $ 37,378 | $ 8,303 |
| Total revenues | 15,143 | 3,872 | 37,378 | 8,303 |
| **Expenses:** | | | | |
| Rental operating | 7,719 | 2,245 | 18,619 | 4,433 |
| Acquisition costs | 2 | 3,018 | 6,846 | 5,177 |
| Management fees | 2,635 | 651 | 6,566 | 1,355 |
| General and administrative | 2,183 | 668 | 5,848 | 2,217 |
| Loss on disposal of assets | 474 | 659 | 2,323 | 1,671 |
| Depreciation and amortization expense | 8,214 | 2,406 | 22,940 | 5,187 |
| Total expenses | 21,227 | 9,647 | 63,142 | 20,040 |
| Loss before other income (expense) | (6,084) | (5,775) | (25,764) | (11,737) |
| Other income (expense): | | | | |
| Interest income | 54 | 42 | 163 | 87 |
| Interest expense | (3,369) | (1,098) | (7,524) | (1,551) |
| **Net loss** | (9,399) | (6,831) | (33,125) | (13,201) |
| Other comprehensive loss: | | | | |
| Designated derivatives, fair value adjustment | (23) | (58) | (106) | (100) |
| Comprehensive loss | $ (9,422) | $ (6,889) | $ (33,231) | $ (13,301) |
| Weighted average common shares outstanding | 58,321 | 28,626 | 57,462 | 18,592 |
| Basic and diluted net loss per common share | $ (0.16) | $ (0.24) | $ (0.58) | $ (0.71) |

The accompanying notes are an integral part of these consolidated financial statements.

**RESOURCE REAL ESTATE OPPORTUNITY REIT II, INC.**
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**
(in thousands)
(unaudited)

| | Common Stock | | Convertible Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | |
| Balance, at January 1, 2016 | 52,697 | $ 526 | 50 | $ 1 | $ 465,448 | $ (117) | $ (45,586) | $ 420,272 |
| Issuance of common stock | 4,259 | 43 | — | — | 42,423 | — | — | 42,466 |
| Offering costs | — | — | — | — | (6,263) | — | — | (6,263) |
| Common stock issued through distribution reinvestment plan | 1,764 | 18 | — | — | 15,392 | — | (15,410) | — |
| Distributions declared | — | — | — | — | — | — | (16,443) | (16,443) |
| Share redemptions | (55) | (1) | — | — | (479) | — | — | (480) |
| Designated derivatives, fair value adjustment | — | — | — | — | — | (106) | — | (106) |
| Net loss | — | — | — | — | — | — | (33,125) | (33,125) |
| Balance, at September 30, 2016 | 58,665 | $ 586 | 50 | $ 1 | $ 516,521 | $ (223) | $ (110,564) | $ 406,321 |

The accompanying notes are an integral part of this consolidated financial statement.

**RESOURCE REAL ESTATE OPPORTUNITY REIT II, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(in thousands)
(unaudited)

| | Nine Months Ended September 30 | |
|---|---|---|
| | **2016** | **2015** |
| **Cash flows from operating activities:** | | |
| Net loss | $ (33,125) | $ (13,201) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Loss on disposal of assets | 2,323 | 1,671 |
| Depreciation and amortization | 22,940 | 5,187 |
| Amortization of deferred financing costs | 510 | 182 |
| Amortization of mortgage premiums | (91) | (20) |
| Change in fair value of interest rate swap | 147 | 381 |
| Changes in operating assets and liabilities: | | |
| Restricted cash | (2,694) | (1,020) |
| Tenant receivables, net | (32) | (26) |
| Due from related parties | (284) | (249) |
| Prepaid expenses and other assets | 2,615 | 444 |
| Due to related parties | (3,271) | (986) |
| Accounts payable and accrued expenses | 6,959 | 2,469 |
| Tenant prepayments | 146 | 125 |
| Security deposits | (41) | (4) |
| Net cash (used in) provided by operating activities | (3,898) | (5,047) |
| | | |
| **Cash flows from investing activities** | | |
| Property acquisitions | (239,427) | (151,398) |
| Capital expenditures | (22,832) | (4,822) |
| Restricted cash - capital reserves | (540) | — |
| Net cash (used in) provided by investing activities | (262,799) | (156,220) |
| | | |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of common stock, net of redemptions | 49,599 | 270,945 |
| Payment of deferred financing costs | (3,418) | (3,320) |
| Increase in borrowings | 240,307 | 52,200 |
| Repayments on borrowings | (1,076) | — |
| Purchase of interest rate caps | (145) | (87) |
| Distributions paid on common stock | (10,433) | (3,249) |
| Offering costs | (6,263) | (28,902) |
| Net cash (used in) provided by financing activities | 268,571 | 287,587 |
| | | |
| **Net (decrease) increase in cash** | 1,874 | 126,320 |
| **Cash at beginning of period** | 180,826 | 15,781 |
| **Cash at end of period** | $ 182,700 | $ 142,101 |

The accompanying notes are an integral part of these consolidated financial statements.

## NOTE 1 - NATURE OF BUSINESS AND OPERATIONS (LOSS)

Resource Real Estate Opportunity REIT II, Inc. (the "Company") was organized in Maryland on September 28, 2012. The Company offered up to 100,000,000 shares of common stock in its primary initial public offering for $10 per share, with volume discounts available to investors who purchased $1.0 million or more of shares through the same participating broker-dealer. Discounts were also available for other categories of investors. The Company is also offering up to 10,000,000 shares pursuant to the Company's distribution reinvestment plan at a purchase price equal to $8.56 per share ($9.50 per share prior to March 31, 2016). The Company has adopted a fiscal year ending December 31. On February 6, 2014, the Securities and Exchange Commission (the "SEC") declared effective the Company's Registration Statement on Form S-11, as amended (Commission File No. 333-184476) (the "Registration Statement"), relating to the offering of up to 110,000,000 shares of the Company's common stock, including shares offered pursuant to the Company's distribution reinvestment plan. The primary portion of the offering closed on February 10, 2016.

Resource Real Estate Opportunity Advisor II, LLC (the "Advisor") is a wholly owned subsidiary of Resource Real Estate, Inc. (the "Sponsor") and an indirect wholly owned subsidiary of Resource America, Inc. ("RAI"), operating in the real estate, financial fund management and commercial finance sectors. The Advisor acts as the Company's external advisor and manages the Company's day-to-day operations and its portfolio of real estate investments and provides asset-management, marketing, investor relations and other administrative services on the Company's behalf, all subject to the supervision of the Company's Board of Directors. On October 9, 2012, the Advisor contributed $200,000 to the Company in exchange for 20,000 shares of common stock. On December 20, 2013, the Advisor received 50,000 shares of convertible stock in exchange for 5,000 shares of the Company's common stock. The Advisor purchased an additional 117,778 shares of common stock in 2014 for $1.1 million.

On September 8, 2016, RAI was acquired by C-III Capital Partners, LLC ("C-III"), a leading commercial real estate services company engaged in a broad range of activities. C-III controls our Advisor and Resource Securities, Inc., ("Resource Securities"), the Company's dealer manager, and Resource Real Estate Opportunity Manager II, LLC, the Company's property manager; C-III also controls all of the shares of common stock held by RAI.

As of September 30, 2016, a total of 58,479,988 shares, including the additional shares purchased by the Advisor and shares issued through the distribution reinvestment plan (but excluding shares issued through stock distributions), have been issued in connection with the Company's public offering resulting in gross offering proceeds of $575.1 million. As of September 30, 2016, the Company had issued 2,673,691 shares for $24.1 million pursuant to its distribution reinvestment plan.

The Company's objective is to take advantage of the Sponsor's dedicated multifamily investing and lending platforms to invest in multifamily assets across the entire spectrum of investments in order to provide stockholders with growing cash flow and increasing asset values. The Company's targeted portfolio will consist, at the time of acquisition, of commercial real estate assets, principally (i) underperforming multifamily rental properties which the Company will renovate and stabilize in order to increase rents, (ii) distressed real estate owned by financial institutions, usually as a result of foreclosure, and non-performing or distressed loans, including first- and second-priority mortgage loans and other loans which the Company will resolve, and (iii) performing loans, including first- and second-priority mortgage loans and other loans the Company originates or purchases either directly or with a co-investor or joint venture partner.

The Company elected to be taxed as a real estate investment trust ("REIT") for U.S. federal income tax purposes under the provisions of the Internal Revenue Code of 1986, as amended, commencing with its taxable year ended December 31, 2014. As such, to maintain its REIT qualification for U.S. federal income tax purposes, the Company is generally required to distribute at least 90% of its net income (excluding net capital gains) to its stockholders as well as comply with certain other requirements. Accordingly, the Company generally will not be subject to U.S. federal income taxes to the extent that it annually distributes at least 100% of its REIT taxable income to its stockholders. The Company also operates its business in a manner that is intended to permit it to maintain its exemption from registration under the Investment Company Act of 1940, as amended.

The consolidated financial statements and the information and tables contained in the notes thereto, as of September 30, 2016, are unaudited and prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. However, in the opinion of management, these interim financial statements include all of the necessary adjustments to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The results of operations for the three and nine months ended September 30, 2016 may not necessarily be indicative of the results of operations for the full year ending December 31, 2016. The consolidated balance sheet as of December 31, 2015 was derived from the audited consolidated financial statements as of December 31, 2015.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

| Subsidiary | Apartment Complex | Number of Units | Property Location |
|---|---|---|---|
| RRE Opportunity Holdings II, LLC | N/A | N/A | N/A |
| RRE Opportunity OP II, LP | N/A | N/A | N/A |
| RRE Bear Creek Holdings, LLC, or Bear Creek | Adair off Addison | 152 | Dallas, TX |
| RRE Oak Hill Holdings, LLC, or Oak Hill | Overton Trails Apartment Homes | 360 | Fort Worth, TX |
| RRE Buckhead Holdings, LLC, or Buckhead | Uptown Buckhead | 216 | Atlanta, GA |
| RRE Farrington Holdings, LLC, or Farrington | Crosstown at Chapel Hill | 411 | Chapel Hill, NC |
| RRE Mayfair Chateau Holdings, LLC, or Mayfair Chateau | The Brookwood | 274 | Homewood, AL |
| RRE Fairways of Bent Tree Holdings, LLC, or Fairways of Bent Tree | Adair off Addison Apartment Homes | 200 | Dallas, TX |
| RRE Montclair Terrace Holdings, LLC, or Montclair Holdings | Montclair Terrace | 188 | Portland, OR |
| RRE Grand Reserve Holdings, LLC, or Grand Reserve | Grand Reserve | 319 | Naperville, IL |
| RRE Canterwood Holdings, LLC, or Canterwood | Verdant Apartment Homes | 216 | Boulder, CO |
| RRE Spalding Crossing Holdings, LLC, or Spalding Crossing | 1000 Spalding Apartment Homes | 252 | Atlanta, GA |
| RRE Fox Ridge Holdings, LLC, or Fox Ridge | Arcadia Apartment Homes | 300 | Centennial, CO |
| RRE Riverlodge Holdings, LLC, or Riverlodge | Riverlodge | 498 | Austin, TX |
| RRE Breckenridge Holdings, LLC, or Breckenridge | Breckenridge | 357 | Portland, OR |
| RRE Santa Rosa Holdings, LLC, or Santa Rosa | Santa Rosa | 476 | Irving, TX |

N/A - Not Applicable

All intercompany accounts and transactions have been eliminated in consolidation.

### Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### Real Estate Investments

The Company records acquired real estate at fair value on its acquisition date. The Company considers the period of future benefit of an asset to determine its appropriate useful life. The Company's estimated useful lives of its assets by class are as follows:

| | |
|---|---|
| Buildings | 27.5 years |
| Building improvements | 3.0 to 27.5 years |
| Tenant improvements | Shorter of lease term or expected useful life |
| Lease intangibles | Remaining term of related lease |

As four of the Company's multifamily properties are located in the Dallas-Fort Worth area, two properties are located in Portland, Oregon, two properties are located in  the Atlanta area and two properties are located in the Denver area, our portfolio is currently particularly susceptible to adverse economic developments in these real estate markets. Any adverse economic or real estate developments in these markets, such as business layoffs or downsizing, industry slowdowns, relocations of businesses, changing demographics and other factors, or any decrease in demand for multifamily rentals resulting from the local business climate, could negatively affect our liquidity and adversely affect our ability to fund our ongoing operations.

**Impairment of Long Lived Assets**

When circumstances indicate the carrying value of a property may not be recoverable, the Company reviews the asset for impairment.  This review is based on an estimate of the future undiscounted cash flows, excluding interest charges, expected to result from the property's use and eventual disposition.  These estimates consider factors such as expected future operating income, market and other applicable trends and residual value, as well as the effects of leasing demand, competition and other factors.

If impairment exists, due to the inability to recover the carrying value of a property, an impairment loss will be recorded to the extent that the carrying value exceeds the estimated fair value of the property for properties to be held and used. For properties held for sale, the impairment loss is the adjustment to fair value less estimated cost to dispose of the asset. These assessments have a direct impact on net income because recording an impairment loss results in an immediate negative adjustment to net income. The Company did not recognize any impairment charges as of September 30, 2016.

**Allocation of Purchase Price of Acquired Assets**

Upon the acquisition of real properties, the Company allocates the purchase price of properties to acquired tangible assets, consisting of land, buildings, fixtures and improvements, identified intangible lease assets, consisting of the value of above-market and below-market leases, as applicable, the value of in-place leases, the value of tenant relationships, and liabilities, based in each case on their fair values.

Fair value estimates are based on information obtained from a number of sources, including information obtained about each property as a result of pre-acquisition due diligence, marketing and leasing activities. In addition, the Company may obtain independent appraisal reports. The information in the appraisal reports, along with the aforementioned information available to the Company's management, is used in allocating the purchase price. The independent appraisers have no involvement in management's allocation decisions other than providing market information.

The Company records above-market and below-market in-place lease values for acquired properties based on the present value (using an interest rate that reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease.  The Company amortizes any capitalized above-market or below-market lease values as an increase or reduction to rental income over the remaining non-cancelable terms of the respective leases.

The Company measures the aggregate value of other intangible assets acquired based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued as if vacant.  Management's estimates of value are expected to be made using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis). Factors to be considered by management in its analysis include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions and costs to execute similar leases.

In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods. Management also estimates costs to execute similar leases including leasing commissions and legal and other related expenses to the extent that such costs have not already been incurred in connection with a new lease origination as part of the transaction.

The total amount of other intangible assets acquired is further allocated to customer relationship intangible values based on management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with that respective tenant. Characteristics considered by management in allocating these values include the nature and extent of the Company's existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals (including those existing under the terms of the lease agreement), among other factors.

The Company amortizes the value of in-place leases to expense over the remaining term of the underlying leases. The value of customer relationship intangibles is amortized to expense over the initial term and any renewal periods in the respective leases, but in no event does amortization periods for the intangible assets exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the in-place lease value and relationship intangibles related to that customer would be charged to expense in that period.

The determination of the fair value of the assets and liabilities acquired requires the use of significant assumptions with regard to current market rental rates, discount rates and other variables. These estimates are subject to change until all information is finalized, which is generally within one year of the acquisition date.

**Revenue Recognition**

The Company recognizes minimum rent, including rental abatements and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related lease and includes amounts expected to be received in later years in deferred rents. The Company records property operating expense reimbursements due from tenants for common area maintenance, real estate taxes and other recoverable costs in the period the related expenses are incurred.

The specific timing of a sale is measured against various criteria related to the terms of the transaction and any continuing involvement associated with the property. If the criteria for profit recognition under the full-accrual method are not met, the Company defers the gain recognition and accounts for the continued operations of the property by applying the percentage-of-completion, reduced profit, deposit, installment or cost recovery methods, as appropriate, until the appropriate criteria are met.

The future minimum rental payments to be received from noncancelable operating leases are $33.2 million and $250,588 for the 12-month periods ending September 30, 2017 and 2018, respectively, and none thereafter.

**Tenant Receivables**

The Company makes estimates of the collectability of its tenant receivables related to base rents, including straight-line rentals, expense reimbursements and other revenue or income. The Company specifically analyzes accounts receivable and historic bad debts, tenant creditworthiness, current economic trends when evaluating the adequacy of the allowance for doubtful accounts. In addition, with respect to tenants in bankruptcy, the Company makes estimates of the expected recovery of pre-petition and post-petition claims in assessing the estimated collectability of the related receivable. In some cases, the ultimate resolution of these claims can exceed one year. At September 30, 2016 and December 31, 2015, there were allowances for uncollectible accounts of $14,103 and $194, respectively.

**Income Taxes**

The Company elected to be taxed as a REIT, commencing with its taxable year ended December 31, 2014. Accordingly, the Company will generally not be subject to corporate U.S. federal or state income tax to the extent that it makes qualifying distributions to its stockholders, and provided it satisfies on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which it lost its REIT qualification. Accordingly, the Company's failure to qualify as a REIT could have a material adverse impact on its results of operations and amounts available for distribution to its stockholders.

The dividends paid deduction of a REIT for qualifying dividends to its stockholders is computed using the Company's taxable income as opposed to net income reported on the financial statements. Taxable income, generally, will differ from net income reported on the financial statements because the determination of taxable income is based on tax provisions and not financial accounting principles.

The Company may elect to treat certain of its subsidiaries as taxable REIT subsidiaries ("TRSs"). In general, the Company's TRSs may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. A TRS is subject to U.S. federal, state and local corporate income taxes.

While a TRS may generate net income, a TRS can declare dividends to the Company which will be included in the Company's taxable income and necessitate a distribution to its stockholders. Conversely, if the Company retains earnings at a TRS level, no distribution is required and the Company can increase book equity of the consolidated entity. As of September 30, 2016 and December 31, 2015, the Company had no TRSs.

**Earnings Per Share**

Basic earnings (loss) per share is computed by dividing income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted to common stock. Due to reported losses for the current periods presented, the convertible shares (discussed in Note 11) are not included in the diluted earnings per share calculation, as they would be anti-dilutive. All common shares and per common share information in the consolidated financial statements have been adjusted retroactively for the effect of one 0.625% stock distribution issued on July 14, 2014, one 1.00% stock distribution issued October 15, 2014, one 0.83333% stock distribution issued on January 15, 2015, one 0.5% stock distribution issued on April 15, 2015, and one 0.5% stock distribution issued on July 15, 2015.

**Correction of an Immaterial Error**

During the second quarter ended June 30, 2016, the Company made an adjustment to correct an immaterial error related to the accrual of real estate taxes. As a result of this error, the Company increased accounts payable and accrued expenses and rental properties by $832,283, respectively. The adjustment impacts the Consolidated Balance Sheet, Note 5- Rental Properties, net and Note 6 - Acquisitions as of December 31, 2015. This correction had no impact of earnings or cash flows.

**Organization and Offering Costs**

The Company incurred organizational, accounting, and offering costs in pursuit of its financing. Organization and offering costs (other than selling commissions and dealer-manager fees) of the Company were initially paid by the Advisor on behalf of the Company. Organization costs were expensed as incurred and included all expenses incurred by the Company in connection with the formation of the Company, including, but not limited to, legal fees and other costs to incorporate the Company.

Pursuant to the Amended and Restated Advisory Agreement between the Company and the Advisor dated January 9, 2014, as amended (the "Advisory Agreement"), the Company is obligated to reimburse the Advisor for organizational and offering costs it incurred on the Company's behalf, but only to the extent that such reimbursements did not cause organizational and offering expenses (other than selling commissions and the dealer manager fees) to exceed 2.5% of the gross offering proceeds raised in the offering, when recorded by the Company. The primary portion of the offering closed on February 10, 2016, at which point total organizational and offering costs incurred did not exceed 2.5% of the gross offering proceeds raised in the offering.

Through September 30, 2016, the Company incurred $11.2 million for the payment of offering costs consisting of accounting, advertising, allocated payroll, due diligence, marketing, legal and similar costs. As of September 30, 2016, the Advisor had incurred $7.2 million of these costs on behalf of the Company. A portion of these costs was charged to equity upon the sale of each share of common stock sold under the public offering. Similarly, a portion of the proceeds received from the sales of shares in the Company's public offering was paid to the Advisor to reimburse it for the amount incurred on behalf of the Company. As of September 30, 2016, the Company had reimbursed all $7.2 million of deferred offering costs to the Advisor.

**Adoption of New Accounting Standards**

In January 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items". The amendments in ASU No. 2015-01 eliminate from GAAP the concept of extraordinary items. Although the amendment will eliminate the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. ASU No. 2015-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. On

January 1, 2016, the Company adopted ASU 2015-01 and the adoption had no impact on the Company's consolidated financial statements.

In February 2015, FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis", which makes certain changes to both the variable interest model and the voting model, including changes to (1) the identification of variable interests (fees paid to a decision maker or service provider), (2) the variable interest entity characteristics for a limited partnership or similar entity and (3) the primary beneficiary determination. ASU 2015-02 is effective for the Company beginning January 1, 2016. On January 1, 2016, the Company adopted ASU 2015-02 and the adoption had no impact on the Company's consolidated financial statements.

In April 2015, FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected. The Company applied the new guidance on a retrospective basis and adjusted the balance sheet of each individual period presented to reflect the period-specific effects of applying the new guidance. This guidance was effective and was adopted by the Company on January 1, 2016. Accordingly, the Company has reclassified $2.5 million of unamortized debt issuance costs at December 31, 2015 from assets to liabilities as a direct reduction of the related mortgage notes payable.

In September 2015, FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments", which eliminates the requirement to retroactively revise comparative financial information for prior periods presented in financial statements due to changes in provisional amounts recorded for acquisitions in subsequent periods. Upon adoption, disclosure of the amounts recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized at the acquisition date are required. ASU 2015-16 was effective and adopted by the Company on January 1, 2016 and the adoption had no impact on its consolidated financial statements.

Accounting Standards Issued But Not Yet Effective

In May 2014, FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers”, which will replace most existing revenue recognition guidance in GAAP. The core principle of ASU No. 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU No. 2014-09 requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU No. 2014-09 will be effective for the Company beginning January 1, 2018, including interim periods in 2018, and allows for both retrospective and prospective methods of adoption. The Company is in the process of determining the method of adoption and assessing the impact of this guidance on the Company’s consolidated financial position, results of operations and cash flows.

In August 2014, FASB issued ASU No. 2014-15, "Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern." Under the new guidance, an entity should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. The guidance is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of the new requirements is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, "Leases", which is intended to improve financial reporting about leasing transactions and requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. ASU No. 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is continuing to evaluate this guidance; however, it does not expect the adoption of ASU No. 2016-02 to have a significant impact on its consolidated financial statements.

In August 2016, FASB issued ASU No. 2016-15 "Classification of Certain Cash Receipts and Cash Payments", which addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. The guidance is effective for the Company as of January 1, 2018. Early application is permitted. The adoption of the new requirements is not expected to have a material impact on the reporting of the Company's consolidated cash flows.

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## NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION

The following table presents supplemental cash flow information (in thousands):

| | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|
| **Non-cash operating, financing and investing activities:** | | |
| Cash distributions on common stock declared but not yet paid | $ 8,788 | $ 4,556 |
| Stock issued pursuant to distribution reinvestment plan | 15,410 | 4,925 |
| Stock distributions issued | — | 2,267 |
| Deferred offering costs | — | 1,308 |
| Due to related parties | — | 1,219 |
| Rental property and other assets acquired through assumption of mortgage notes payable | 28,704 | 22,189 |
| | | |
| **Cash paid during the period for:** | | |
| Interest | $ 5,723 | $ 612 |

## NOTE 4 - RESTRICTED CASH

Restricted cash represents escrow deposits with lenders to be used to pay real estate taxes, insurance, and capital improvements. A summary of the components of restricted cash follows (in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Real estate taxes | $ 4,557 | $ 1,586 |
| Insurance | 466 | 293 |
| Capital improvements | 2,561 | 2,022 |
| | $ 7,584 | $ 3,901 |

## NOTE 5 - RENTAL PROPERTIES, NET

The Company’s investments in rental properties consisted of the following (in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Land | $ 100,053 | $ 66,487 |
| Building and improvements | 540,850 | 314,716 |
| Furniture, fixtures and equipment | 29,340 | 10,539 |
| Construction in progress | 5,473 | 1,710 |
| | 675,716 | 393,452 |
| Less: accumulated depreciation | (20,306) | (5,295) |
| | $ 655,410 | $ 388,157 |

Depreciation expense for the three and nine months ended September 30, 2016 was $6.3 million, and $15.1 million, respectively. Depreciation expense for the three and nine months ended September 30, 2015 was $1.4 million and $2.8 million, respectively.



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**RESOURCE REAL ESTATE OPPORTUNITY REIT II, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**
**SEPTEMBER 30, 2016**
**(unaudited)**

## NOTE 6 - ACQUISITIONS

During the nine months ended September 30, 2016, the Company owned 14 properties. In order to finalize the fair values of the acquired assets and liabilities, the Company obtained third-party appraisals. The Company has up to 12 months from the date of acquisition to finalize the valuation for each property. All valuations have been finalized as of September 30, 2016.

The table below summarizes these acquisitions and the respective fair values assigned (in thousands):

| Multifamily Community Name | City and State | Date of Acquisition | Contractual Purchase Price (1) | Land | Building and Improvements | Furniture, Fixture and Equipment | Intangible Assets | Debt assumed | Other Liabilities | Fair Valued Assigned |
|---|---|---|---|---|---|---|---|---|---|---|
| Adair off Addison | Dallas, Texas | 6/4/2014 | $ 9,500 | $ 1,889 | $ 7,061 | $ 199 | $ 351 | $ — | $ (85) | $ 9,415 |
| Overton Trails Apartment Homes | Fort Worth, Texas | 12/19/2014 | 47,000 | 4,834 | 40,486 | 504 | 1,176 | — | (60) | 46,940 |
| Uptown Buckhead | Atlanta, Georgia | 3/30/2015 | 32,500 | 6,464 | 24,993 | 399 | 644 | — | (117) | 32,383 |
| Crosstown at Chapel Hill | Chapel Hill, North Carolina | 5/19/2015 | 46,750 | 7,098 | 37,947 | 608 | 1,097 | — | (231) | 46,519 |
| The Brookwood | Homewood, Alabama | 8/21/2015 | 30,050 | 3,595 | 25,997 | 411 | 766 | (22,189) | (148) | 8,432 |
| Adair off Addison Apartment Homes | Dallas, Texas | 8/27/2015 | 21,250 | 2,532 | 17,831 | 304 | 583 | — | (229) | 21,021 |
| 1000 Spalding Apartment Homes | Atlanta, Georgia | 9/24/2015 | 41,000 | 5,030 | 34,765 | 399 | 806 | — | (51) | 40,949 |
| Montclair Terrace | Portland, Oregon | 10/29/2015 | 32,750 | 3,545 | 28,282 | 304 | 619 | — | (80) | 32,670 |
| Grand Reserve | Naperville, Illinois | 12/18/2015 | 66,700 | 12,132 | 52,982 | 1,097 | 1,322 | — | (98) | 67,435 |
| Verdant Apartment Homes | Boulder, Colorado | 12/18/2015 | 65,200 | 19,527 | 44,140 | 514 | 1,019 | — | (344) | 64,856 |
| Arcadia Apartment Homes | Centennial, Colorado | 1/22/2016 | 60,250 | 8,578 | 49,990 | 492 | 1,191 | — | (126) | 60,125 |
| Riverlodge | Austin, Texas | 3/23/2016 | 57,000 | 6,776 | 47,992 | 698 | 1,534 | (28,765) | (393) | 27,842 |
| Breckenridge | Portland, Oregon | 5/17/2016 | 81,500 | 9,642 | 69,701 | 812 | 1,345 | — | (181) | 81,319 |
| Santa Rosa | Irvine, Texas | 6/28/2016 | 70,000 | 8,410 | 59,326 | 718 | 1,546 | — | (616) | 69,384 |

(1) Contractual purchase price excludes closing costs and acquisition expenses.

The table below summarizes the total revenues, net loss, and acquisition costs and fees of the Company's 2016 acquisitions (in thousands):

| Multifamily Community | Three Months Ended September 30, 2016 | Nine Months Ended September 30, 2016 |
|---|---|---|
| Arcadia Apartment Homes | | |
| Total Revenues | $ 1,210 | $ 3,404 |
| Net Loss | (441) | (1,666) |
| Acquisition Costs | 3 | 55 |
| Acquisition Fee | — | 1,371 |
| Riverlodge | | |
| Total Revenues | 1,646 | 3,361 |
| Net Loss | (1,040) | (2,920) |
| Acquisition Costs | — | 194 |
| Acquisition Fee | — | 1,380 |
| Breckenridge | | |
| Total Revenues | 1,356 | 2,029 |
| Net Loss | (1,168) | (2,347) |
| Acquisition Costs | 1 | 159 |
| Acquisition Fee | — | 1,798 |
| Santa Rosa | | |
| Total Revenues | 1,662 | 1,713 |
| Net Loss | (572) | (741) |
| Acquisition Costs | — | 163 |
| Acquisition Fee | — | 1,627 |

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## NOTE 7 - IDENTIFIED INTANGIBLE ASSETS, NET

Identified intangible assets, net, consist of in-place rental leases. The gross value of acquired in-place leases totaled $14.0 million and $8.4 million as of September 30, 2016 and December 31, 2015, respectively, which is presented and are reported net of accumulated amortization of $12.3 million and $4.5 million, respectively. The weighted average remaining life of the rental leases is six months as of September 30, 2016. Amortization expense for the three months ended September 30, 2016 and 2015 was $1.9 million and $1.1 million, respectively. Amortization expense for the nine months ended September 30, 2016 and 2015 was $7.8 million and $2.4 million, respectively. As of September 30, 2016, expected amortization for the in-place rental leases for the next 12 months is $1.7 million and none thereafter.

## NOTE 8 - MORTGAGE NOTES PAYABLE, NET

The following is a summary of the Company's mortgage notes payable (in thousands):

| | Outstanding borrowings | Premium, net | Deferred Finance Costs, net | Carrying Value | Outstanding borrowings | Premium, net | Deferred Finance Costs, net | Carrying Value |
|---|---|---|---|---|---|---|---|---|
| **Collateral** | **September 30, 2016** | | | | **December 31, 2015** | | | |
| Overton Trails Apartment Homes | $ 31,075 | $ — | $ (348) | $ 30,727 | $ 31,075 | $ — | $ (382) | 30,693 |
| Uptown Buckhead | 20,200 | — | (293) | 19,907 | 20,200 | — | (320) | 19,880 |
| Crosstown at Chapel Hill | 32,000 | — | (401) | 31,599 | 32,000 | — | (491) | 31,509 |
| The Brookwood - Key Bank | 18,339 | 536 | (252) | 18,623 | 18,603 | 621 | (293) | 18,931 |
| The Brookwood - Capital One | 2,710 | 41 | (43) | 2,708 | 2,739 | 47 | (50) | 2,736 |
| Adair off Addison and Adair off Addison Apartment Homes | 25,500 | — | (493) | 25,007 | 25,500 | — | (583) | 24,917 |
| 1000 Spalding Apartment Homes | 24,600 | — | (305) | 24,295 | 24,600 | — | (349) | 24,251 |
| Riverlodge | 28,453 | — | (413) | 28,040 | — | — | — | — |
| Verdant Apartment Homes | 37,300 | — | (359) | 36,941 | — | — | — | — |
| Arcadia Apartment Homes | 40,200 | — | (394) | 39,806 | — | — | — | — |
| Grand Reserve | 42,613 | — | (465) | 42,148 | — | — | — | — |
| Montclair Terrace | 21,192 | — | (368) | 20,824 | — | — | — | — |
| Breckenridge | 52,975 | — | (726) | 52,249 | — | — | — | — |
| Santa Rosa | 45,700 | — | (659) | 45,041 | — | — | — | — |
| | $ 422,857 | $ 577 | $ (5,519) | $ 417,915 | $ 154,717 | $ 668 | $ (2,468) | $ 152,917 |



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| | Maturity Date | Annual Interest Rate | Average Monthly Debt Service | | Average Monthly Escrow |
|---|---|---|---|---|---|
| Overton Trails Apartment Homes | 1/1/2025 | 2.44% | 102 | (1) (3) | 155 |
| Uptown Buckhead | 7/1/2025 | 2.75% | 67 | (1) (3) | 70 |
| Crosstown at Chapel Hill | 7/10/2020 | 2.23% | 77 | (1) (4) | — |
| The Brookwood - Key Bank | 11/1/2021 | 4.73% | 104 | (2) | 27 |
| The Brookwood - Capital One | 11/1/2021 | 5.40% | 16 | (2) | — |
| Adair off Addison and Adair off Addison Apartment Homes | 1/1/2021 | 2.08% | 78 | (1) (3) | — |
| 1000 Spalding Apartment Homes | 1/1/2022 | 3.88% | 107 | (2) | 39 |
| Riverlodge | 5/1/2022 | 3.76% | 144 | (2) | 130 |
| Verdant Apartment Homes | 5/1/2023 | 3.89% | 154 | (2) | 26 |
| Arcadia Apartment Homes | 5/1/2023 | 3.89% | 165 | (2) | 19 |
| Grand Reserve | 6/1/2023 | 3.10% | 173 | (1) | 88 |
| Montclair Terrace | 6/1/2023 | 2.98% | 84 | (1) | 21 |
| Breckenridge | 7/1/2023 | 2.89% | 185 | (1) | 54 |
| Santa Rosa | 9/1/2026 | 2.64% | 136 | (1) | — |

(1) Variable rate based on one-month LIBOR of 0.5311% (as of September 30, 2016) plus a fixed margin
(2) Fixed rate
(3) Variable rate hedged with interest rate cap cash flow hedge
(4) Variable rate hedged with variable-for-fixed interest rate swap

On June 4, 2014, in connection with the acquisition of Adair off Addison, the Company entered into a $7.5 million, secured mortgage loan with Berkadia Commercial Mortgage, LLC (the "Adair Mortgage Loan"), secured by Adair off Addison. The Adair Mortgage Loan, was set to mature on July 1, 2024, bearing interest at a floating rate of one-month LIBOR plus 2.37%. The Adair Mortgage Loan was refinanced on December 9, 2015 with the Adair off Addison Apartment Homes Mortgage Loan (discussed below).

On December 19, 2014, in connection with the acquisition of Overton Trails Apartment Homes, the Company entered into a $31.1 million, secured mortgage loan with M&T Realty Capital Corporation (the "Overton Mortgage Loan"), secured by Overton Trails Apartment Homes. The Overton Mortgage Loan, which matures on January 1, 2025, bears interest at a floating rate of one-month LIBOR plus 1.91%. Monthly payments are initially interest only. Beginning with the February 2017 payment, monthly payments will include interest and principal, which based upon current interest rates, amount to approximately $109,000 per month.

On June 30, 2015, the Company entered into a $20.2 million secured mortgage loan with Prudential Multifamily Mortgage, LLC (the "Uptown Buckhead Mortgage Loan"), secured by Uptown Buckhead. The Uptown Buckhead Mortgage Loan, which matures on July 1, 2025, bears interest at a floating rate of one-month LIBOR plus 2.22%. Monthly payments are initially interest only. Beginning with the August 2017 payment, monthly payments will include interest and principal, which based upon current interest rates, amount to approximately $74,000 per month.

On July 28, 2015, the Company entered into a $32.0 million secured mortgage loan with Bank of America, N.A. (the "Crosstown at Chapel Hill Mortgage Loan"), secured by Crosstown at Chapel Hill. The Crosstown at Chapel Hill Mortgage Loan, which matures on July 10, 2020, bears interest at a floating rate of one-month LIBOR plus 1.70%. Monthly payments are initially interest only. Beginning with the August 2017 payment, monthly payments will include interest and principal, which based upon current interest rates, amount to approximately $85,000 per month.

On August 21, 2015, in connection with the acquisition of The Brookwood Apartment Homes, the Company assumed a $18.3 million secured first mortgage loan with Key Bank (the "Brookwood Key Bank Mortgage Loan"), secured by The Brookwood Apartment Homes. The Brookwood Key Bank Mortgage Loan, which matures November 1, 2021, bears interest at a fixed rate of 4.73%. Monthly payments include interest and principal, in the amount of approximately $104,000 per month.

On August 21, 2015, in connection with the acquisition of The Brookwood Apartment Homes, the Company assumed a $2.7 million secured second mortgage loan with Capital One (the "Brookwood Capital One Mortgage Loan"), secured by The Brookwood Apartment Homes. The Brookwood Capital One Mortgage Loan, which matures November 1, 2021, bears interest at a fixed rate of 5.40%. Monthly payments include interest and principal, in the amount of approximately $16,000 per month.

On August 21, 2015, the Company recorded a fair value adjustment, which represented the fair value of the debt assumed over its principal amount in connection with The Brookwood Apartment Homes acquisition. The fair value will be amortized to interest expense over the term of the related mortgages loans using the effective interest method. As of September 30, 2016, the net unamortized fair value of debt assumed adjustment was $577,000 and was included as a component of mortgage loans payable in the accompanying consolidated balance sheets.

On December 9, 2015, the Company entered into a $25.5 million secured mortgage loan with Capital One (the "Adair off Addison Apartment Homes Mortgage Loan"), secured by Adair off Addison and Adair off Addison Apartment Homes. The Adair off Addison Apartment Home Mortgage Loan refinanced the existing Adair off Addison Mortgage Loan (discussed above). The Adair off Addison Apartment Home Mortgage Loan, which matures on January 1, 2021, bears interest at a floating rate of one-month LIBOR plus 1.55%. Monthly payments are initially interest only. Beginning with the February 2017 payment, monthly payments will include interest and principal, which based upon current interest rates, amount to approximately $78,000 per month.

On December 18, 2015, the Company entered into a $24.6 million secured mortgage loan with Allstate Life Insurance Company, Allstate Life Insurance Company of New York and Allstate Assurance Company (the "Spalding Mortgage Loan"), secured by 1000 Spalding Crossing. The Spalding Mortgage Loan, which matures on January 1, 2022, bears interest at a fixed rate of 3.88%. Monthly payments are initially interest only. Beginning with the February 2018 payment, monthly payments include interest and principal, in the amount of approximately $116,000.

On March 23, 2016, in connection with the acquisition of Riverlodge, the Company assumed a $28.8 million secured mortgage loan with CBRE Capital Markets, Inc. (the "Riverlodge Mortgage Loan"), secured by Riverlodge. The Riverlodge Mortgage Loan, which matures May 1, 2022, bears interest at a fixed rate of 3.76%. Monthly payments include interest and principal, in the amount of approximately $144,000 per month. The contract fixed interest rate was in line with the market rates, therefore the Company did not record either a premium or discount in conjunction with the loan assumption.

On April 14, 2016, the Company entered into a $37.3 million secured mortgage loan with Allstate Life Insurance Company, Allstate Life Insurance Company of New York and Allstate Assurance Company (the "Verdant Mortgage Loan"), secured by Verdant Apartment Homes. The Verdant Mortgage Loan, which matures on May 1, 2023, bears interest at a fixed rate of 3.89%. Monthly payments are initially interest only. Beginning with the June 2019 payment, monthly payments include interest and principal, in the amount of approximately $176,000.

On April 14, 2016, the Company entered into a $40.2 million secured mortgage loan with Allstate Life Insurance Company, Allstate Life Insurance Company of New York and Allstate Assurance Company (the "Arcadia Mortgage Loan"), secured by Arcadia Apartment Homes. The Arcadia Mortgage Loan, which matures on May 1, 2023, bears interest at a fixed rate of 3.89%. Monthly payments are initially interest only. Beginning with the June 2019 payment, monthly payments include interest and principal, in the amount of approximately $189,000.

On May 16, 2016, the Company entered into a $42.8 million secured mortgage loan with Berkadia (the "Grand Reserve Mortgage Loan"), secured by Grand Reserve. The Grand Reserve Mortgage Loan, which matures on June 1, 2023, bears interest at a floating rate of one-month LIBOR plus 2.57%. Monthly payments include interest and principal, which based upon current rates, amounts to approximately $180,000 per month.

On May 17, 2016, the Company entered into a $21.3 million secured mortgage loan with HFF, L.P. (the "Montclair Mortgage Loan"), secured by Montclair Terrace. The Montclair Mortgage Loan, which matures on June 1, 2023, bears interest at a floating rate of one-month LIBOR plus 2.45%. Monthly payments include interest and principal, which based upon current rates, amounts to approximately $84,000 per month.

On June 24, 2016, the Company entered into a $53.0 million secured mortgage loan with CBRE (the "Breckenridge Mortgage Loan"), secured by Breckenridge. The Breckenridge Mortgage Loan, which matures on July 1, 2023, bears interest at a floating rate of one-month LIBOR plus 2.36%. Monthly payments are initially interest only. Beginning with the August 2018 payment, monthly payments will include interest and principal, which based upon current rates, amounts to approximately $216,000 per month.

On August 29, 2016, the Company entered into a $45.7 million secured mortgage loan with CBRE (the "Santa Rosa Mortgage Loan"), secured by Santa Rosa at Las Colinas. The Santa Rosa Mortgage Loan, which matures on September 1, 2026, bears interest at a floating rate of one-month LIBOR plus 2.11%. Monthly payments are initially interest only. Beginning with the October 2021 payment, monthly payments will include interest and principal, which based upon current rates, amounts to approximately $177,000 per month.

Annual principal payments on the mortgage notes payable, excluding amortization of the mortgage premium, for each of the next five 12-month periods ending September 30 and thereafter, are as follows (in thousands):

| | | |
|---|---|---|
| 2017 | $ | 3,288 |
| 2018 | | 4,909 |
| 2019 | | 6,741 |
| 2020 | | 38,494 |
| 2021 | | 30,863 |
| Thereafter | | 338,562 |
| Total principal payments | $ | 422,857 |

The mortgage notes payable are recourse only with respect to the properties that secure the notes, subject to certain limited standard exceptions, as defined in each mortgage note. The Company has guaranteed the mortgage notes by executing a guarantee with respect to the properties. These exceptions are referred to as “carveouts.” In general, carveouts relate to damages suffered by the lender for a borrower’s failure to pay rents, insurance or condemnation proceeds to lender, failure to pay water, sewer and other public assessments or charges, failure to pay environmental compliance costs or to deliver books and records, in each case as required in the loan documents. The exceptions also require the Company to guarantee payment of audit costs, lender’s enforcement of its rights under the loan documents and payment of the loan if the borrower voluntarily files for bankruptcy or seeks reorganization, or if a related party of the borrower does so with respect to the subsidiary. The Company has also guaranteed the completion and payment of costs of completion of no less than $1.8 million for renovations at Uptown Buckhead by June 30, 2017, all of which were completed as of September 30, 2016. For the Crosstown at Chapel Hill Mortgage Loan, beginning with the calendar quarter ending December 31, 2017, the property must maintain a certain level of debt service coverage.

Deferred financing costs incurred to obtain financing are amortized over the term of the related debt. As of September 30, 2016 and December 31, 2015, accumulated amortization of deferred financing costs was $649,961 and $139,722, respectively. Amortization of deferred financing costs for the next five 12-month periods ending September 30 and thereafter, is as follows (in thousands):

| | | |
|---|---|---|
| 2017 | $ | 939 |
| 2018 | | 929 |
| 2019 | | 914 |
| 2020 | | 871 |
| 2021 | | 693 |
| Thereafter | | 1,173 |
| | $ | 5,519 |

## NOTE 9 - ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in accumulated other comprehensive loss (in thousands):

| | Unrealized loss on derivatives | |
|---|---|---|
| | September 30, 2016 | December 31, 2015 |
| Beginning of period | $ (117) | $ (34) |
| Designated derivatives, fair value adjustment | (106) | (83) |
| End of period | $ (223) | $ (117) |

## NOTE 10 - RELATED PARTY TRANSACTIONS

Pursuant to the terms of the Advisory Agreement, the Advisor provides the Company with the services of its management team, including its officers, along with appropriate support personnel. The Advisor is reimbursed for the Company's allocable share of costs for Advisor personnel, including allocable personnel salaries and benefits. Each of the Company's officers is an employee of the Sponsor or one of its affiliates. The Company does not have any employees. The Advisor is not obligated to dedicate any specific portion of its time or the time of its personnel to the Company's business. The Advisor is at all times subject to the supervision and oversight of the Company's Board of Directors and has only such functions and authority as the Company delegates to it.

During the course of the primary offering, the Advisor provided offering-related services to the Company and advanced funds to the Company for both operating costs and organization and offering costs. These amounts are reimbursed to the Advisor from the proceeds from the offering. As of September 30, 2016, the Advisor has incurred costs on a cumulative basis on behalf of the Company of approximately $7.2 million, all of which had been reimbursed.

**Relationship with the Advisor**

The Advisory Agreement has a one-year term and renews for an unlimited number of successive one-year terms upon the approval of the conflicts committee of the Company's Board of Directors. Under the Advisory Agreement, the Advisor receives fees and is reimbursed for its expenses as set forth below:

*Acquisition fees.* The Advisor earns an acquisition fee of 2.0% of the cost of investments acquired on behalf of the Company, plus any capital expenditure reserves allocated, or the amount funded by the Company to acquire loans, including acquisition expenses and any debt attributable to such investments.

*Asset management fees.* The Advisor earns a monthly asset management fee equal to one-twelfth of 1.0% of the cost of each asset, without deduction for depreciation, bad debts or other non-cash reserves. The asset management fee is based only on the portion of the costs or value attributable to the Company's investment in an asset if the Company does not own all of an asset and does not manage or control the asset.

*Disposition fees.* The Advisor earns a disposition fee in connection with the sale of a property equal to the lesser of one-half of the aggregate brokerage commission paid, or if none is paid, 2.0% of the contract sales price.

*Debt financing fees.* The Advisor earns a debt financing fee equal to 0.5% of the amount available under any debt financing obtained for which it provided substantial services.

*Expense reimbursements.* The Company also pays directly or reimburses the Advisor for all of the expenses paid or incurred by the Advisor or its affiliates on behalf of the Company or in connection with the services provided to the Company in relation to its public offering, including its distribution reinvestment plan offering. This includes all organization and offering costs of up to 2.5% of gross offering proceeds. Reimbursements also include expenses the Advisor incurs in connection with providing services to the Company, including the Company's allocable share of costs for Advisor personnel and overhead, out-of-pocket expenses incurred in connection with the selection and acquisition of properties or other real estate related debt investments, whether or not the Company ultimately acquires the investment. However, the Company will not reimburse the Advisor or its affiliates for employee costs in connection with services for which the Advisor earns acquisition or disposition fees.

**Relationship with RAI**

On September 8, 2016, RAI was acquired by C-III, pursuant to an Agreement and PLan of Merger dated May 22, 2016 (the "Merger Agreement"). Pursuant to the Merger Agreement, a wholly-owned subsidiary of C-III merged with and into RAI, with RAI surviving the merger as a wholly-owned subsidiary of C-III.

*Self-insurance funds held in escrow*. The balance of the receivable from related party includes escrow funds held by RAI for self-insurance. The Company's properties participate in an insurance pool with other properties directly and indirectly managed by RAI for both property insurance and general liability. RAI holds the escrow funds related to the insurance pools on its books. The insurance pool covers losses up to $2.5 million and the pool for the general liability covers losses up to the first $50,000 per incident. Catastrophic insurance would cover losses in excess of the insurance pool up to $140.0 million. Therefore, unforeseen or catastrophic losses in excess of the Company's insured limits could have a material adverse effect on the Company's financial condition and operating results. During the nine months ended September 30, 2016, the Company paid $799,183 into the insurance pools.

*Internal audit fees.* RAI performs internal audit services for the Company.

**Relationship with Resource Real Estate Opportunity Manager II**

Resource Real Estate Opportunity Manager II, LLC (the “Manager”), an affiliate of the Advisor, manages real estate properties and real estate-related debt investments and coordinates the leasing of, and manages construction activities related to the Company’s real estate properties pursuant to the terms of the management agreement with the Manager.

*Property management fees.* The Manager earns a property management fee equal to 4.5% of actual gross cash receipts from the operations of real property investments.

*Construction management fees.* The Manager earns a construction management fee of 5.0% of actual aggregate costs to construct improvements, or to repair, rehab or reconstruct a property.

*Debt servicing fees.* The Manager earns a debt servicing fee of 2.75% on payments received from loans held by the Company for investment. No debt servicing fees were earned during the nine months ended September 30, 2016 and 2015.

*Expense reimbursement.* During the ordinary course of business, the Manager or other affiliates of RAI may pay certain shared operating expenses on behalf of the Company.

**Relationship with Resource Securities**

Resource Securities, Inc. (“Resource Securities”), an affiliate of the Advisor, serves as the Company’s dealer-manager and was responsible for marketing the Company’s shares during the primary portion of its public offering. Pursuant to the terms of the dealer-manager agreement with Resource Securities, the Company paid Resource Securities a selling commission of up to 7% of gross primary offering proceeds and a dealer-manager fee of up to 3% of gross primary offering proceeds. Resource Securities reallowed all selling commissions earned and a portion of the dealer-manager fee as a marketing fee to participating broker-dealers. No selling commissions or dealer-manager fees are earned by Resource Securities in connection with sales under the distribution reinvestment plan.

**Relationship with Other Related Party**

The Company utilizes the services of a printing company, Graphic Images, LLC (“Graphic Images”), the principal owner of which is the father of RAI’s Chief Financial Officer.

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The fees earned/expenses incurred and the amounts payable to such related parties are summarized in the following tables (in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Due from related parties: | | |
| Resource Securities | $ — | $ 37 |
| RAI - self-insurance funds held | 647 | 326 |
| | $ 647 | $ 363 |
| | | |
| Due to related parties: | | |
| Advisor | | |
| Acquisition fees | $ — | $ 2,646 |
| Asset management fees | — | 309 |
| Organization and offering costs | — | 1,938 |
| Operating expense reimbursements | 116 | 115 |
| | | |
| Manager | | |
| Property management fees | 281 | 99 |
| Operating expense reimbursements | 406 | 217 |
| | | |
| Resource Securities | | |
| Selling commissions and dealer-manager fees | — | 711 |
| | | |
| RAI | | |
| Internal audit fees | 23 | — |
| | $ 826 | $ 6,035 |
| | | |
| Graphic Images [(1)] | $ — | $ 3 |

(1) Included in Accrued expenses on the consolidated balance sheets.



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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Fees earned / expenses incurred: | | | | |
| Advisor | | | | |
| Acquisition fees [1] | $ — | $ 2,239 | $ 6,450 | $ 4,067 |
| Asset management fees [2] | $ 1,955 | $ 485 | $ 4,910 | $ 997 |
| Debt financing fees [3] | $ 229 | $ 267 | $ 1,346 | $ 561 |
| Organization and offering costs [4] | $ — | $ 450 | $ 86 | $ 1,403 |
| Operating expense reimbursements [5] | $ 832 | $ 273 | $ 2,135 | $ 818 |
| | | | | |
| Manager | | | | |
| Property management fees [2] | $ 672 | $ 166 | $ 1,602 | $ 359 |
| Construction management fees [7] | $ 389 | $ 134 | $ 910 | $ 211 |
| Operating expense reimbursements [5] | $ 36 | $ 150 | $ 97 | $ 218 |
| Information technology fees [5] | $ 46 | — | $ 118 | $ — |
| | | | | |
| Resource Securities | | | | |
| Selling commissions and dealer-manager fees [6] | $ — | $ 7,934 | $ 4,192 | $ 26,281 |
| | | | | |
| Other | | | | |
| Graphic Images [4] | $ — | $ 96 | $ 3 | $ 368 |

(1) Included in Acquisition costs on the consolidated statements of operations and comprehensive loss per income statement.
(2) Included in Management fees on the consolidated statements of operations and comprehensive loss per income statement.
(3) Included in Mortgage notes payable, net on the consolidated balance sheets.
(4) Included in Deferred offering costs and Stockholders' Equity on the consolidated balance sheets.
(5) Included in General and administrative on the consolidated statements of operations and comprehensive loss per income statement.
(6) Included in Stockholders' equity on the consolidated balance sheets.
(7) Included in Rental properties, net on the consolidated balance sheets.

## NOTE 11 - EQUITY

### Preferred Stock

The Company’s charter authorizes the Company to issue 10,000,000 shares of its $0.01 par value preferred stock. As of September 30, 2016, no shares of preferred stock were issued or outstanding.

### Convertible Stock

As of September 30, 2016, the Company had 50,000 shares of $0.01 par value convertible stock outstanding, which are owned by the Advisor and affiliated persons. The convertible stock will convert into shares of the Company’s common stock upon the occurrence of (a) the Company having paid distributions to common stockholders that in the aggregate equal 100% of the price at which the Company originally sold the shares plus an amount sufficient to produce a 7% cumulative, non-compounded annual return on the shares at that price; or (b) if the Company lists its common stock on a national securities exchange and, on or after the 31st trading day following the listing, the Company’s value based on the average trading price of its common stock since the listing, plus prior distributions, combine to meet the same 7% return threshold.

Each of these two events is a “Triggering Event.” Upon a Triggering Event, the Company's convertible stock will, unless its advisory agreement has been terminated or not renewed on account of a material breach by its Advisor, generally be converted into a number of shares of common stock equal to 1/50,000 of the quotient of:

(A) the lesser of

(i) 25% of the amount, if any, by which

(1) the value of the Company as of the date of the event triggering the conversion plus the total distributions paid to its stockholders through such date on the then-outstanding shares of its common stock exceeds

(2) the sum of the aggregate issue price of those outstanding shares plus a 10% cumulative, non-compounded, annual return on the issue price of those outstanding shares as of the date of the event triggering the conversion, or

(ii) 15% of the amount, if any, by which

(1) the value of the Company as of the date of the event triggering the conversion plus the total distributions paid to its stockholders through such date on the then-outstanding shares of its common stock exceeds

(2) the sum of the aggregate issue price of those outstanding shares plus a 6% cumulative, non-compounded, annual return on the issue price of those outstanding shares as of the date of the event triggering the conversion, divided by

(B) the value of the Company divided by the number of outstanding shares of common stock, in each case, as of the date of the event triggering the conversion.

**Common Stock**

As of September 30, 2016, the Company had an aggregate of 58,665,120 shares of $0.01 par value common stock outstanding, including the Advisor's additional purchase of 117,778 shares of common stock for $1.1 million, as follows (dollars in thousands):

| | Shares Issued | Gross Proceeds |
|---|---|---|
| Initial public offering | 55,791,297 | $ 556,197 |
| Shares issued through stock distributions | 246,365 | — |
| Shares issued through distribution reinvestment plan | 2,673,691 | 24,054 |
| Advisor's initial investment, net of 5,000 share conversion | 15,000 | 150 |
| Redemptions | (61,233) | (536) |
| | 58,665,120 | $ 579,865 |

**Redemptions**

During the nine months ended September 30, 2016, the Company redeemed shares as follows (in thousands, except per share data):

| Month | Total Number of Shares Redeemed (1) | Average Price Paid per Share | Cumulative Number of Shares Purchased as Part of a Publicly Announced Plan or Program (2) | Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program |
|---|---|---|---|---|
| January 2016 | — | $— | — | (2) |
| February 2016 | — | $— | — | (2) |
| March 2016 | 8 | $9.64 | 8 | (2) |
| April 2016 | — | $— | — | (2) |
| May 2016 | — | $— | — | (2) |
| June 2016 | 48 | $9.75 | 48 | (2) |
| July 2016 | — | $— | — | (2) |
| August 2016 | — | $— | — | (2) |
| September 2016 | — | $— | — | (2) |

(1) All purchases of equity securities by the Company in the nine months ended September 30, 2016 were made pursuant to the Company's share redemption program.

(2) The Company currently limits the dollar value and number of shares that may be repurchased under the program, as discussed below.

All redemption requests tendered during the nine months ended September 30, 2016 were honored during that period.

The Company will not redeem in excess of 5% of the weighted-average number of shares outstanding during the 12-month period immediately prior to the effective date of redemption. Generally, the cash available for redemption will be limited to proceeds from the distribution reinvestment plan plus, if the Company had positive operating cash flow from the previous fiscal year, 1% of all operating cash flow from the previous fiscal year. These limitations apply to all redemptions, including redemptions sought upon a stockholder's death, qualifying disability or confinement to a long-term care facility.

The Company's board of directors, in its sole discretion, may suspend, terminate or amend the Company's share redemption program without stockholder approval upon 30 days' notice if it determines that such suspension, termination or amendment is in the Company's best interest. The Company's board may also reduce the number of shares purchased under the share redemption program if it determines the funds otherwise available to fund the Company's share redemption program are needed for other purposes. These limitations apply to all redemptions, including redemptions sought upon a stockholder's death, qualifying disability or confinement to a long-term care facility.

**Distributions**

For the nine months ended September 30, 2016, the Company paid aggregate distributions of $25.8 million, including $10.4 million of distributions paid in cash and $15.4 million of distributions reinvested in shares of common stock through the Company's distribution reinvestment plan, as follows (in thousands):

| Authorization Date | Per Common Share | Record Dates | Distribution Date | Distributions reinvested in shares of Common Stock | Net Cash Distributions | Total Aggregate Distributions |
|---|---|---|---|---|---|---|
| December 17, 2015 | $ 0.00164384 | December 31, 2015 through January 28, 2016 | January 29, 2016 | $ 1,540 | $ 1,041 | $ 2,581 |
| December 17, 2015 | 0.00164384 | January 29, 2016 through February 26, 2016 | February 29, 2016 | 1,618 | 1,103 | 2,721 |
| February 24, 2016 | 0.00164384 | February 27, 2016 through March 30, 2016 | March 31, 2016 | 1,838 | 1,267 | 3,105 |
| March 29, 2016 | 0.00164384 | March 31, 2016 through April 29, 2016 | April 30, 2016 | 1,635 | 1,106 | 2,741 |
| March 29, 2016 | 0.00164384 | April 30, 2016 through May 30, 2016 | May 31, 2016 | 1,640 | 1,106 | 2,746 |
| March 29, 2016 | 0.00164384 | May 31, 2016 through June 29, 2016 | June 30, 2016 | 1,870 | 1,270 | 3,140 |
| June 15, 2016 | 0.00164384 | June 30, 2016 through July 28, 2016 | July 31, 2016 | 1,653 | 1,115 | 2,767 |
| June 15, 2016 | 0.00164384 | July 29, 2016 through August 30, 2016 | August 31, 2016 | 1,891 | 1,269 | 3,160 |
| June 15, 2016 | 0.00164384 | August 31, 2016 through September 29, 2016 | September 30, 2016 | 1,725 | 1,158 | 2,883 |
| | | | | $ 15,410 | $ 10,433 | $ 25,844 |

On September 30, 2016, the Board of Directors approved distributions in an amount of $0.00164384 per share of common stock for stockholders of record each day in the period from September 30, 2016 through and including December 29, 2016, payable on October 31, 2016, November 30, 2016 and December 30, 2016.

**NOTE 12 - FAIR VALUE MEASURES AND DISCLOSURES**

In analyzing the fair value of its investments accounted for on a fair value basis, the Company follows the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company determines fair value based on quoted prices when available or, if quoted prices are not available, through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment. The fair value of cash, tenant receivables and accounts payable, approximate their carrying value due to their short nature. The hierarchy followed defines three levels of inputs that may be used to measure fair value:

*Level 1* - Quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

*Level 2* - Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.

*Level 3* - Unobservable inputs that reflect the entity's own assumptions about the assumptions that market participants would use in the pricing of the asset or liability and are consequently not based on market activity, but rather through particular valuation techniques.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter; depending on various factors, it is possible that an asset or liability may be classified differently from quarter to quarter. However, the Company expects that changes in classifications between levels will be rare.

The fair value of rental properties is usually estimated based on information obtained from a number of sources, including information obtained about each property as a result of pre-acquisition due diligence, marketing and leasing activities. The Company allocates the purchase price of properties to acquired tangible assets, consisting of land, buildings, fixtures and improvements, and identified intangible lease assets and liabilities, consisting of the value of above-market and below-market leases, as applicable, the value of in-place leases and the value of tenant relationships, based in each case on their fair values.

Derivatives (interest rate caps) which are reported at fair value in the consolidated balance sheets are valued by a third party pricing agent using an income approach with models that use, as their primary inputs, readily observable market parameters. This valuation process considers factors including interest rate yield curves, time value, credit and volatility factors (Level 2).

The following table presents information about the Company's assets measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value as follows (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **September 30, 2016** | | | | |
| Assets: | | | | |
| Interest rate caps | $ — | $ 78 | $ — | $ 78 |
| | $ — | $ 78 | $ — | $ 78 |
| Liabilities: | | | | |
| Cancelable swap | | (273) | | (273) |
| | $ — | $ (273) | $ — | $ (273) |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **December 31, 2015** | | | | |
| Assets: | | | | |
| Interest rate caps | $ — | $ 52 | $ — | $ 52 |
| | $ — | $ 52 | $ — | $ 52 |
| Liabilities: | | | | |
| Cancelable swap | | (127) | | (127) |
| | $ — | $ (127) | $ — | $ (127) |

Interest rate caps are included in Prepaid expenses and other assets on the consolidated balance sheets. The cancelable swap is included in Derivative liability on the consolidated balance sheet.

The outstanding balance and estimated fair value of the Company's mortgage notes payable are as follows (in thousands):

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Outstanding Balance | Estimated Fair Value | Outstanding Balance | Estimated Fair Value |
| Mortgage notes payable | $ 422,857 | $ 419,778 | $ 154,717 | $ 38,540 |

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The fair value of the mortgage notes payable with fixed interest rates was estimated using rates available to the Company for debt with similar terms and remaining maturities (Level 3). The fair values of eight of the mortgage notes payable with variable interest rates equals the carrying amounts because the variable interest rate of each credit facility is considered a market rate (Level 3).

## NOTE 13 - DERIVATIVES AND HEDGING ACTIVITIES

*Risk Management Objective of Using Derivatives*

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.

As a condition of the Company's mortgage loans, from time to time the Company may be required to enter into certain derivative transactions as may be required by the lender. These transactions would generally be in line with the Company's own risk management objectives and also serve to protect the lender.

*Interest Rate Caps*

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company entered into interest rate caps that were designated as cash flow hedges. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the nine months ended September 30, 2016, such derivatives were used to hedge the variable cash flows, indexed to London InterBank Offered Rate ("LIBOR"), associated with existing variable-rate loan agreements. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the nine months ended September 30, 2016, the Company did not record any hedge ineffectiveness in earnings.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next 12 months, the Company estimates that an additional $46,846 will be reclassified as an increase to interest expense.

*Cancelable swaps*

To manage its exposure to interest rate movements, the Company has also entered into a cancelable interest rate swap that was not designated as a hedging instrument. Interest rate swaps involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements but do not meet the strict hedge accounting requirements.

As of September 30, 2016, the Company had the following outstanding interest rate derivatives (dollars in thousands):



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| Interest Rate Derivatives | Number of Instruments | Notional Amount | Maturity Dates |
|---|---|---|---|
| **Derivatives designated as hedging instruments:** | | | |
| Prepaid expenses and other assets | 6 | $ 241,582 | January 1, 2018 through June 1, 2020 |
| **Derivatives not designated as hedging instruments** | | | |
| Derivatives not designated as hedging instruments | 1 | $ 32,000 | July 28, 2020 |

***Tabular Disclosure of Fair Value of Derivative Instrument on the Balance Sheet***

The table below presents the fair value of the Company's derivative financial instruments on the consolidated balance sheets as of September 30, 2016 and December 31, 2015 (in thousands):

| Asset Derivatives | | | | Liabilities Derivatives | | | |
|---|---|---|---|---|---|---|---|
| September 30, 2016 | | December 31, 2015 | | September 30, 2016 | | December 31, 2015 | |
| Balance Sheet | Fair Value | Balance Sheet | Fair Value | Balance Sheet | Fair Value | Balance Sheet | Fair Value |
| Prepaid expenses and other assets | $ 78 | Prepaid expenses and other assets | $ 52 | NA | $ — | NA | $ — |
| NA | $ — | NA | — | Derivative liability | (273) | Derivative liability | (127) |

Interest rate caps are included in Prepaid expenses and other assets on the consolidated balance sheets. The cancelable swap is included in Derivative liability on the consolidated balance sheet.

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2016 and 2015 (in thousands):

| Derivatives Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income | Amount of Gain (Loss) Recognized in Income for the Three Months Ended September 30, 2016 | Amount of Gain (Loss) Recognized in Income for the Three Months Ended September 30, 2015 | Amount of Gain (Loss) Recognized in Income for the Nine Months Ended September 30, 2016 | Amount of Gain (Loss) Recognized in Income for the Nine Months Ended September 30, 2015 |
|---|---|---|---|---|---|
| Interest rate caps | Interest expense | $ 3 | — | $ 6 | — |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income | Amount of Gain (Loss) Recognized in Income for the Three Months Ended September 30, 2016 | Amount of Gain (Loss) Recognized in Income for the Three Months Ended September 30, 2015 | Amount of Gain (Loss) Recognized in Income for the Nine Months Ended September 30, 2016 | Amount of Gain (Loss) Recognized in Income for the Nine Months Ended September 30, 2015 |
|---|---|---|---|---|---|
| Cancelable swap | Interest expense | $ 42 | (478) | $ (492) | (478) |

*Credit-risk-related Contingent Features*

The Company has agreements with its derivative counterparties that contain provisions where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. As of September 30, 2016, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements, was $300,070. As of September 30, 2016, the Company has not posted any collateral related to these agreements. If


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the Company had breached any of these provisions at September 30, 2016, it could have been required to settle its obligations under the agreements at their termination value of $300,070.

## NOTE 14 - OPERATING EXPENSE LIMITATION

As required under the Company's charter, the Advisor must reimburse the Company the amount by which the aggregate total operating expenses for the four fiscal quarters then ended exceed the greater of 2% of the average invested assets or 25% of net income, unless the conflicts committee has determined that such excess expenses were justified based on unusual and non-recurring factors. “Average invested assets” means the average monthly book value of assets invested, directly or indirectly, in equity interests in and loans secured by real estate during the 12-month period before deducting depreciation, bad debts or other non-cash reserves. “Total operating expenses” means all expenses paid or incurred by the Company, as determined under GAAP, that are in any way related to operations, including advisory fees, but excluding (a) the expenses of raising capital such as organization and offering expenses, legal, audit, accounting, underwriting, brokerage, listing, registration and other fees, printing and other such expenses and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of stock; (b) interest payments; (c) taxes; (d) non-cash expenditures such as depreciation, amortization and bad debt reserves; (e) reasonable incentive fees based on the gain in the sale of assets; and (f) acquisition fees, acquisition expenses (including expenses relating to potential investments that do not close), disposition fees on the resale of property and other expenses connected with the acquisition, disposition and ownership of real estate interests, loans or other property (including the costs of foreclosure, insurance premiums, legal services, maintenance, repair and improvement of property). Operating expenses for the four quarters ended September 30, 2016 did not exceed the charter imposed limitation.

## NOTE 15 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events and determined that no additional events have occurred which would require an adjustment to or additional disclosure in the consolidated financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (unaudited)

The following discussion and analysis should be read in conjunction with the accompanying financial statements of Resource Real Estate Opportunity REIT II, Inc. and the notes thereto. As used herein, the terms "we," "our" and "us" refer to Resource Real Estate Opportunity REIT II, Inc., a Maryland corporation, and, as required by context, RRE Opportunity OP II, LP, a Delaware limited partnership, and to their subsidiaries.

***Certain statements included in this Quarterly Report on Form 10-Q are forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "could," "estimate," "expects," "intend," "may," "plan," "potential," "project," "should," "will" and "would" or the negative of these terms or other comparable terminology. Actual results may differ materially from those contemplated by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances after the date of this report, except as may be required under applicable law.***

### Overview

We are a Maryland corporation that invests in multifamily assets across the entire spectrum of investments in order to provide investors with growing cash flow and increasing asset values. Our targeted portfolio will consist, at the time of acquisition, of commercial real estate assets, principally (i) underperforming multifamily rental properties which we will renovate and stabilize in order to increase rents, (ii) distressed real estate owned by financial institutions, usually as a result of foreclosure, and non-performing or distressed loans, including first- and second-priority mortgage loans and other loans which we will resolve, and (iii) performing loans, including first- and second-priority mortgage loans and other loans we originate or purchase either directly or with a co-investor or joint venture partner. We believe multiple opportunities exist within the multifamily industry today and will continue to present themselves over the next few years to real estate investors who possess the following characteristics: (i) extensive experience in multifamily investing, (ii) strong management platforms specializing in operational and financial performance optimization, (iii) financial sophistication allowing them to benefit from complex opportunities and (iv) the overall scale and breadth of a national real estate platform in both the equity and debt markets. We may make adjustments to our target portfolio based on real estate market conditions and investment opportunities. We will not forego a good investment because it does not precisely fit our expected portfolio composition. Thus, to the extent that Resource Real Estate Opportunity Advisor II, LLC, our external advisor, or the Advisor, presents us with investment opportunities that allow us to meet the requirements to be treated as a real estate investment trust, or REIT, under the Internal Revenue Code, and to maintain our exclusion from regulation as an investment company under the Investment Company Act of 1940, our portfolio composition may vary from what we initially expect.

We commenced the public offering of our common stock in February 2014 and terminated the primary portion of the offering in February 2016. We describe this offering in "Liquidity and Capital Resources," below.

### Results of Operations

We were formed on September 28, 2012. We commenced active real estate operations on June 4, 2014 with the acquisition of our first multi-family property. As of September 30, 2016, we owned 14 multifamily properties. Our management is not aware of any material trends or uncertainties, favorable, or unfavorable, other than national economic conditions affecting our targeted portfolio, the multifamily residential housing industry and real estate generally, which may reasonably be expected to have a material impact on either capital resources or the revenues or income to be derived from the operation of such assets or those that we expect to acquire.

**Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015**

The following table sets forth the results of our operations (in thousands):

| | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 |
|---|---|---|
| **Revenues:** | | |
| Rental income | $ 15,143 | $ 3,872 |
| Total revenues | 15,143 | 3,872 |
| **Expenses:** | | |
| Rental operating | 7,719 | 2,245 |
| Acquisition costs | 2 | 3,018 |
| Management fees | 2,635 | 651 |
| General and administrative | 2,183 | 668 |
| Loss on disposal of assets | 474 | 659 |
| Depreciation and amortization expense | 8,214 | 2,406 |
| Total expenses | 21,227 | 9,647 |
| Loss before other income (expense) | (6,084) | (5,775) |
| Other income (expense): | | |
| Interest income | 54 | 42 |
| Interest expense | (3,369) | (1,098) |
| Net loss | $ (9,399) | $ (6,831) |

**Revenues.** Rental income increased by $11.3 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. The increase is due to the acquisition of seven additional properties since September 30, 2015.

**Expenses.** Our operating expenses for the three months ended September 30, 2016 were from the ongoing operations of our business and the ownership of 14 operating properties.

Acquisition costs decreased by $3.0 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, as we did not purchase any properties during the three months ended September 30, 2016, while we acquired three multifamily properties during the three months ended September 30, 2015 with a purchase price of $92.3 million.

Management fees increased by $2.0 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 primarily due to the increase in the asset management fees paid to the Advisor related to the ownership of seven additional properties since September 30, 2015. The asset management fee is equal to one-twelfth of 1.0% of the cost of each asset, without deduction for deprecation, bad debts or other non-cash reserves.

General and administrative expenses increased by approximately $1.5 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, primarily related to the following:

Company level expenses during the three months ended September 30, 2016 included $769,033 in payroll costs allocated to us by our Advisor, $273,957 of professional fees, $57,814 in directors and officers insurance and $41,330 in travel.

Property level expenses during the three months ended September 30, 2016 of approximately $771,000 were related to the operations of our 14 multifamily properties and increased as a result of the acquisition of seven additional properties since September 30, 2015.

Loss on disposal of assets of approximately $474,000 related primarily to the replacement of appliances at our rental properties in conjunction with unit upgrades.

Depreciation and amortization is comprised of the depreciation on our rental properties and amortization of intangible assets related to in-place leases, which are amortized over a period of approximately six to nine months after acquisition.

Interest expense increased by $2.3 million during three months ended September 30, 2016 as compared to the three months ended September 30, 2015 as a result of nine additional mortgages either entered into or assumed since September 30, 2015, which were used to finance property acquisitions and increased amortization of deferred financing costs.

**Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015**

The following table sets forth the results of our operations (in thousands):

| | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|
| **Revenues:** | | |
| Rental income | $ 37,378 | $ 8,303 |
| Total revenues | $ 37,378 | $ 8,303 |
| **Expenses:** | | |
| Rental operating | 18,619 | 4,433 |
| Acquisition costs | 6,846 | 5,177 |
| Management fees | 6,566 | 1,355 |
| General and administrative | 5,848 | 2,217 |
| Loss on disposal of assets | 2,323 | 1,671 |
| Depreciation and amortization expense | 22,940 | 5,187 |
| Total expenses | 63,142 | 20,040 |
| Loss before other income (expense) | (25,764) | (11,737) |
| Other income (expense): | | |
| Interest income | 163 | 87 |
| Interest expense | (7,524) | (1,551) |
| Net loss | $ (33,125) | $ (13,201) |

**Revenues.** Rental income increased by $29.1 million during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. The increase is due to the acquisition of seven additional properties since September 30, 2015.

**Expenses.** Our operating expenses for the nine months ended September 30, 2016 were from the ongoing operations of our business and the ownership of 14 operating properties.

Acquisition costs increased by $1.7 million during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 due to the acquisition of four multifamily properties during the nine months ended September 30, 2016 with an aggregate purchase price of $268.8 million versus the acquisition of five multifamily properties during the nine months ended September 30, 2015 with an aggregate purchase price of $171.6 million.

Management fees increased by $5.2 million during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 primarily due to the increase in the asset management fee paid to the Advisor related to the ownership of seven additional properties since September 30, 2015. The asset management fee is equal to one-twelfth of 1.0% of the cost of each asset, without deduction for deprecation, bad debts or other non-cash reserves.

General and administrative expenses increased by $3.6 million during nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015, primarily related to the following:

Company level expenses during the nine months ended September 30, 2016 included $2.0 million in payroll costs allocated to us by our Advisor, approximately $1.2 million of professional fees, $127,120 in travel and entertainment expenses and $98,193 in computer software expenses.

Property level expenses during the nine months ended September 30, 2016 of $2.1 million were related to the operations of our 14 multifamily properties and increased as a result of the acquisition of seven additional properties since September 30, 2015.

Loss on disposal of assets of $2.3 million related primarily to the replacement of appliances at our rental properties in conjunction with unit upgrades.

Depreciation and amortization is comprised of the depreciation on our rental properties and amortization of intangible assets related to in-place leases, which are amortized over a period of approximately six to nine months after acquisition.

Interest expense increased by $6.0 million during nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 as a result of nine additional mortgages either entered into or assumed since September 30, 2015, which were used to finance property acquisitions and increased amortization of deferred financing costs.



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**Liquidity and Capital Resources**

From February 2014 to February 2016, we offered in our public offering up to $1.0 billion in shares of common stock, $0.01 par value per share, at $10 per share. At the termination of the primary offering, we had raised$556.2 million in gross proceed. We also offered and continue to offer up to $95.0 million in shares of our common stock to be issued pursuant to our distribution reinvestment plan under which our stockholders may elect to have distributions reinvested in additional shares at $8.56 per share ($9.50 per share prior to March 31, 2016).

We derive the capital required to purchase real estate investments and conduct our operations from the remaining proceeds of our public offering from secured or unsecured financings from banks or other lenders, from proceeds from the sale of assets and from any undistributed funds from our operations.

We intend to allocate funds as necessary to aid our objective of preserving value for our investors by supporting the maintenance and viability of properties we acquire in the future. If such allocations and any other available income become insufficient to cover our operating expenses and liabilities, it may be necessary to obtain additional funds by borrowing, refinancing properties or liquidating our investment in one or more properties, debt investments or other assets we may hold. We cannot assure you that we will be able to access additional funds when we need them or upon acceptable terms.

We may seek to obtain REIT-level financing through a line of credit from third-party financial institutions or other commercial lenders. Our assets will serve as collateral for this type of debt incurred to acquire real estate investments. In addition to debt financing at the REIT-level, we have financed, and may continue to finance, the acquisition costs of individual real estate investments, as well as the acquisition costs of all or a group of real estate investments acquired by us, by causing our subsidiaries to borrow directly from third-party financial institutions or other commercial lenders. Under these circumstances, our Advisor anticipates that certain properties will serve as collateral for the debt we incur to acquire those particular properties and that we will seek to obtain nonrecourse financing for the acquisition of the properties. However, there is no guarantee that our Advisor will be successful in obtaining financing arrangements on a property-by-property basis and that the loans would be nonrecourse to us. Finally, we may also obtain seller financing with respect to specific assets that we acquire.

*Capital Expenditures*

We deployed a total of $22.8 million during the nine months ended September 30, 2016 for capital expenditures. The properties in which we deployed the most capital during the nine months ended September 30, 2016 are listed separately and the capital expenditures made on all other properties are aggregated in "All other properties" below (in thousands):

| | Capital deployed during the nine months ended September 30, 2016 | Remaining capital budgeted |
|---|---|---|
| Overton Trails Apartment Homes | 1,809 | 2,661 |
| Uptown Buckhead | 2,238 | 1,079 |
| Crosstown at Chapel Hill | 2,057 | 4,902 |
| The Brookwood | 3,156 | 4,338 |
| Adair off Addison Apartment Homes | 1,935 | 7,755 |
| 1000 Spalding Apartment Homes | 1,969 | 2,888 |
| Montclair | 573 | 5,663 |
| Grand Reserve | 2,419 | 6,127 |
| Verdant Apartment Homes | 1,537 | 3,945 |
| Arcadia Apartment Homes | 2,779 | 6,402 |
| Riverlodge | 690 | 10,968 |
| All other properties | 1,670 | 21,158 |
| | $ 22,832 | $ 77,886 |

*Common Stock*

As of September 30, 2016, we had an aggregate of 58,665,120 shares of $0.01 par value common stock outstanding, including the Advisor's additional purchase of 117,778 shares of common stock for $1.1 million, as follows (dollars in thousands):

| | Shares Issued | Gross Proceeds |
|---|---|---|
| Initial public offering | 55,791,297 | $ 556,197 |
| Shares issued through stock distributions | 246,365 | — |
| Shares issued through distribution reinvestment plan | 2,673,691 | 24,054 |
| Advisor's initial investment, net of 5,000 share conversion | 15,000 | 150 |
| Redemptions | (61,233) | (536) |
| | 58,665,120 | $ 579,865 |

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*Debt*

The following is a summary of our mortgage notes payable (in thousands):

| Collateral | Outstanding borrowings | Premium, net | Deferred Finance Costs, net | Carrying Value | Outstanding borrowings | Premium | Deferred Finance Costs, net | Carrying Value |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2016 | | | | December 31, 2015 | | | |
| Overton Trails Apartment Homes | $ 31,075 | $ — | $ (348) | $ 30,727 | $ 31,075 | $ — | $ (382) | 30,693 |
| Uptown Buckhead | 20,200 | — | (293) | 19,907 | 20,200 | — | (320) | 19,880 |
| Crosstown at Chapel Hill | 32,000 | — | (401) | 31,599 | 32,000 | — | (491) | 31,509 |
| The Brookwood - Key Bank | 18,339 | 536 | (252) | 18,623 | 18,603 | 621 | (293) | 18,931 |
| The Brookwood - Capital One | 2,710 | 41 | (43) | 2,708 | 2,739 | 47 | (50) | 2,736 |
| Adair off Addison and Adair off Addison Apartment Homes | 25,500 | — | (493) | 25,007 | 25,500 | — | (583) | 24,917 |
| 1000 Spalding Apartment Homes | 24,600 | — | (305) | 24,295 | 24,600 | — | (349) | 24,251 |
| Riverlodge | 28,453 | — | (413) | 28,040 | — | — | — | — |
| Verdant Apartment Homes | 37,300 | — | (359) | 36,941 | — | — | — | — |
| Arcadia Apartment Homes | 40,200 | — | (394) | 39,806 | — | — | — | — |
| Grand Reserve | 42,613 | — | (465) | 42,148 | — | — | — | — |
| Montclair Terrace | 21,192 | — | (368) | 20,824 | — | — | — | — |
| Breckenridge | 52,975 | — | (726) | 52,249 | — | — | — | — |
| Santa Rosa | 45,700 | — | (659) | 45,041 | — | — | — | — |
| | $ 422,857 | $ 577 | $ (5,519) | $ 417,915 | $ 154,717 | $ 668 | $ (2,468) | $ 152,917 |

| | Maturity Date | Annual Interest Rate | Average Monthly Debt Service | | Average Monthly Escrow |
|---|---|---|---|---|---|
| Overton Trails Apartment Homes | 1/1/2025 | 2.44% | 102 | (1) (3) | 155 |
| Uptown Buckhead | 7/1/2025 | 2.75% | 67 | (1) (3) | 70 |
| Crosstown at Chapel Hill | 7/10/2020 | 2.23% | 77 | (1) (4) | — |
| The Brookwood - Key Bank | 11/1/2021 | 4.73% | 104 | (2) | 27 |
| The Brookwood - Capital One | 11/1/2021 | 5.40% | 16 | (2) | — |
| Adair off Addison and Adair off Addison Apartment Homes | 1/1/2021 | 2.08% | 78 | (1) (3) | — |
| 1000 Spalding Apartment Homes | 1/1/2022 | 3.88% | 107 | (2) | 39 |
| Riverlodge | 5/1/2022 | 3.76% | 144 | (2) | 130 |
| Verdant Apartment Homes | 5/1/2023 | 3.89% | 154 | (2) | 26 |
| Arcadia Apartment Homes | 5/1/2023 | 3.89% | 165 | (2) | 19 |
| Grand Reserve | 6/1/2023 | 3.10% | 173 | (1) | 88 |
| Montclair Terrace | 6/1/2023 | 2.98% | 84 | (1) | 21 |
| Breckenridge | 7/1/2023 | 2.89% | 185 | (1) | 54 |
| Santa Rosa | 9/1/2026 | 2.64% | 136 | (1) | — |

(1) Variable rate based on one-month LIBOR of 0.5311% (as of September 30, 2016) plus a fixed margin
(2) Fixed rate
(3) Variable rate hedged with interest rate cap cash flow hedge
(4) Fixed rate interest rate swap associated with the variable rate debt



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On June 4, 2014, in connection with our acquisition of Adair off Addison, we entered into a $7.5 million, 10-year secured mortgage loan with Berkadia Commercial Mortgage, LLC, (the "Adair Mortgage Loan"), secured by Adair off Addison. The Adair Mortgage Loan was refinanced on December 9, 2015 with the Adair off Addison Apartment Homes Mortgage Loan (discussed below).

On December 19, 2014, in connection with our acquisition of Overton Trails Apartment Homes, we entered into a $31.1 million, secured mortgage loan with M&T Reality Capital Corporation (the "Overton Mortgage Loan"), secured by Oak Hill. The Overton Mortgage Loan, which matures on January 1, 2025, bears interest at a floating rate of one-month LIBOR plus 1.91%. Monthly payments are initially interest only. Beginning with the February 2017 payment, monthly payments will include interest and principal, which based upon current interest rates, will amount to approximately $109,000 per month.

On June 30, 2015, the Company entered into a $20.2 million, secured mortgage loan with Prudential Multifamily Mortgage, LLC (the "Uptown Buckhead Mortgage Loan"), secured by Uptown Buckhead. The Uptown Buckhead Mortgage Loan, which matures on June 1, 2025, bears interest at a floating rate of one-month LIBOR plus 2.22%. Monthly payments are initially interest only. Beginning with the July 2017 payment, monthly payments will include interest and principal, which based upon current interest rates, will amount to approximately $74,000 per month.

On July 28, 2015, we entered into a $32.0 million secured mortgage loan with Bank of America, N.A. (the "Crosstown Mortgage Loan"), secured by Crosstown at Chapel Hill. The Crosstown Mortgage Loan, which matures on July 10, 2020, bears interest at a floating rate of one-month LIBOR plus 1.70%. Monthly payments are initially interest only. Beginning with the August 2017 payment, monthly payments will include interest and principal, which based upon current interest rates, will amount to approximately $85,000 per month.

On August 21, 2015, in connection with the acquisition of The Brookwood Apartment Homes, we assumed a $18.3 million secured first mortgage loan with Key Bank (the "Brookwood Key Bank Mortgage Loan"), secured by The Brookwood Apartment Homes. The Brookwood Key Bank Mortgage Loan, which matures November 1, 2021, bears interest at a fixed rate of 4.73%. Monthly payments include interest and principal, in the amount of approximately $104,000 per month.

On August 21, 2015, in connection with the acquisition of The Brookwood Apartment Homes, we assumed a $2.7 million secured second mortgage loan with Capital One (the "Brookwood Capital One Mortgage Loan"), secured by The Brookwood Apartment Homes. The Brookwood Capital One Mortgage Loan, which matures November 1, 2021, bears interest at a fixed rate of 5.40%. Monthly payments include interest and principal, in the amount of approximately $16,000 per month.

On August 21, 2015, we recorded a fair value adjustment, which represented the fair value of the debt assumed over its principal amount in connection with The Brookwood Apartment Homes acquisition. The fair value is being amortized to interest expense over the term of the related mortgages loans using the effective interest method. As of September 30, 2016, the net unamortized fair value of debt was $577,000 and was included as a component of mortgage loans payable in the accompanying consolidated balance sheets.

On December 9, 2015, we entered into a $25.5 million secured mortgage loan with Capital One (the "Adair off Addison Apartment Homes Mortgage Loan"), secured by Adair off Addison and Adair off Addison Apartment Homes. The Adair off Addison Apartment Homes Mortgage Loan refinanced the existing Adair off Addison Mortgage Loan (discussed above). The Adair off Addison Apartment Home Mortgage Loan, which matures on January 1, 2021, bears interest at a floating rate of one-month LIBOR plus 1.55%. Monthly payments are initially interest only. Beginning with the February 2017 payment, monthly payments will include interest and principal, which based upon current interest rates, will amount to approximately $78,000 per month.

On December 18, 2015, we entered into a $24.6 million secured mortgage loan with Allstate Life Insurance Company, Allstate Life Insurance Company of New York and Allstate Assurance Company (the "Spalding Mortgage Loan"), secured by 1000 Spalding Crossing. The Spalding Mortgage Loan, which matures on January 1, 2022, bears interest at a fixed rate of 3.88%. Monthly payments are initially interest only. Beginning with the February 2018 payment, monthly payments will include interest and principal, which based upon current interest rates, will amount to approximately $116,000 per month.

On March 23, 2016, in connection with the acquisition of Riverlodge, we assumed a $28.5 million secured mortgage loan with CBRE Capital Markets, Inc. (the "Riverlodge Mortgage Loan"), secured by Riverlodge. The Riverlodge Mortgage Loan, which matures May 1, 2022, bears interest at a fixed rate of 3.76%. Monthly payments include interest and principal in the amount of approximately $144,000 per month. The contractual fixed interest rate was in line with the market rates, therefore the Company did not record either a premium or discount in conjunction with the loan assumption.

On April 14, 2016, we entered into a $37.3 million secured mortgage loan with Allstate Life Insurance Company, Allstate Life Insurance Company of New York and Allstate Assurance Company (the "Verdant Mortgage Loan"), secured by Verdant Apartment Homes. The Verdant Mortgage Loan, which matures on May 1, 2023, bears interest at a fixed rate of 3.89%. Monthly payments are initially interest only. Beginning with the June 2019 payment, monthly payments include interest and principal, in the amount of approximately $176,000.

On April 14, 2016, we entered into a $40.2 million secured mortgage loan with Allstate Life Insurance Company, Allstate Life Insurance Company of New York and Allstate Assurance Company (the "Arcadia Mortgage Loan"), secured by Arcadia Apartment Homes. The Arcadia Mortgage Loan, which matures on May 1, 2023, bears interest at a fixed rate of 3.89%. Monthly payments are initially interest only. Beginning with the June 2019 payment, monthly payments include interest and principal, in the amount of approximately $189,000.

On May 16, 2016, we entered into a $42.8 million secured mortgage loan with Berkadia (the "Grand Reserve Mortgage Loan"), secured by Grand Reserve. The Grand Reserve Mortgage Loan, which matures on June 1, 2023, bears interest at a floating rate of one-month LIBOR plus 2.57%. Monthly payments include interest and principal, which based upon current rates, amounts to approximately $180,000 per month.

On May 17, 2016, we entered into a $21.3 million secured mortgage loan with HFF, L.P. (the "Montclair Mortgage Loan"), secured by Montclair Terrace. The Montclair Mortgage Loan, which matures on June 1, 2023, bears interest at a floating rate of one-month LIBOR plus 2.45%. Monthly payments include interest and principal, which based upon current rates, amounts to approximately $84,000 per month.

On June 24, 2016, we entered into a $53.0 million secured mortgage loan with CBRE (the "Breckenridge Mortgage Loan"), secured by Breckenridge. The Breckenridge Mortgage Loan, which matures on July 1, 2023, bears interest at a floating rate of one-month LIBOR plus 2.36%. Monthly payments are initially interest only. Beginning with the August 2018 payment, monthly payments will include interest and principal, which based upon current rates, amounts to approximately $216,000 per month.

On August 29, 2016, we entered into a $45.7 million secured mortgage loan with CBRE (the "Santa Rosa Mortgage Loan"), secured by Santa Rosa at Las Colinas. The Santa Rosa Mortgage Loan, which matures on September 1, 2026, bears interest at a floating rate of one-month LIBOR plus 2.11%. Monthly payments are initially interest only. Beginning with the October 2021 payment, monthly payments will include interest and principal, which based upon current rates, amounts to approximately $177,000 per month.

*Operating Properties*

As of September 30, 2016, our wholly-owned interests in multifamily properties were as follows:

| Subsidiary | Apartment Complex | Number of Units | Property Location |
|---|---|---|---|
| RRE Bear Creek Holdings, LLC, or Bear Creek | Adair off Addison | 152 | Dallas, TX |
| RRE Oak Hill Holdings, LLC, or Oak Hill | Overton Trails Apartment Homes | 360 | Fort Worth, TX |
| RRE Buckhead Holdings, LLC, or Buckhead | Uptown Buckhead | 216 | Atlanta, GA |
| RRE Farrington Holdings, LLC, or Farrington | Crosstown at Chapel Hill | 411 | Chapel Hill, NC |
| RRE Mayfair Chateau Holdings, LLC, or Mayfair Chateau | The Brookwood | 274 | Homewood, AL |
| RRE Fairways of Bent Tree Holdings, LLC, or Fairways of Bent Tree | Adair off Addison Apartment Homes | 200 | Dallas, TX |
| RRE Spalding Crossing Holdings, LLC, or Spalding Crossing | 1000 Spalding Apartment Homes | 252 | Atlanta, GA |
| RRE Montclair Terrace Holdings, LLC, or Montclair Holdings | Montclair Terrace | 188 | Portland, OR |
| RRE Grand Reserve Holdings, LLC, or Grand Reserve | Grand Reserve | 319 | Naperville, IL |
| RRE Canterwood Holdings, LLC, or Canterwood | Verdant Apartment Homes | 216 | Boulder, CO |
| RRE Fox Ridge Holdings, LLC, or Fox Ridge | Arcadia Apartment Homes | 300 | Centennial, CO |
| RRE Riverlodge Holdings, LLC, or Riverlodge | Riverlodge | 498 | Austin, TX |
| RRE Breckenridge Holdings, LLC, or Breckenridge | Breckenridge | 357 | Portland, OR |
| RRE Santa Rosa Holdings, LLC, or Santa Rosa | Santa Rosa | 476 | Irving, TX |
| | | 4,219 | |

As four of our multifamily properties are located in the Dallas-Fort Worth area, two of our properties are located in the Atlanta area, two of our properties are located in Portland, Oregon and two of our properties are located in the Denver area, our portfolio is currently particularly susceptible to adverse economic developments in these real estate markets. Any adverse economic or real estate developments in these markets, such as business layoffs or downsizing, industry slowdowns, relocations of businesses, changing demographics and other factors, or any decrease in demand for multifamily rentals resulting from the local business climate, could negatively affect our liquidity and adversely affect our ability to fund our ongoing operations.

*Organization and Offering Costs*

Our Advisor advanced funds to us for certain organization and offering costs. We reimbursed the Advisor for all of the expenses paid or incurred by our Advisor or its affiliates on our behalf or in connection with the services provided to us in relation to our public offering. This included all organization and offering costs other than selling commissions and dealer manager fees, but only to the extent that such reimbursement would not have caused organizational and offering expenses (other than selling commissions and the dealer manager fee) to exceed 2.5% of gross offering proceeds as of the date of such reimbursement. As of September 30, 2016, the Advisor advanced a total of $7.2 million for organization and offering costs and received $7.2 million in reimbursements.

*Acquisition and Asset Management Costs*

In addition to making investments in accordance with our investment objectives, we expect to use our capital resources to make payments to our Advisor. During our acquisition stage, we expect to make payments to our Advisor in connection with the acquisition of real estate investments. In addition, we expect to continue to make payments to our Advisor for the management of our assets and costs incurred by our Advisor in providing services to us. We describe these payments in more detail in Note 10 of the notes to our consolidated financial statements.

*Operating Expenses*

Under our charter, our Advisor must reimburse us the amount by which our aggregate total operating expenses for the four fiscal quarters then ended exceed the greater of 2% of our average invested assets or 25% of our net income, unless the conflicts committee has determined that such excess expenses were justified based on unusual and non-recurring factors. "Average invested assets" means the average monthly book value of our assets invested, directly or indirectly, in equity interests in and loans secured by real estate during the 12-month period before deducting depreciation, bad debts or other non-cash reserves. "Total operating expenses" means all expenses paid or incurred by us, as determined under GAAP, that are in any way related to our operation, including advisory fees, but excluding (a) the expenses of raising capital such as organization and offering expenses, legal, audit, accounting, underwriting, brokerage, listing, registration and other fees, printing and other such expenses and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of our stock; (b) interest payments; (c) taxes; (d) non-cash expenditures such as depreciation, amortization and bad debt reserves; (e) reasonable incentive fees based on the gain in the sale of our assets; and (f) acquisition fees, acquisition expenses (including expenses relating to potential investments that we do not close), disposition fees on the resale of property and other expenses connected with the acquisition, disposition and ownership of real estate interests, loans or other property (including the costs of foreclosure, insurance premiums, legal services, maintenance, repair and improvement of property). Operating expenses for the four quarters ended September 30, 2016 did not exceed the charter imposed limitation.

**Critical Accounting Policies**

For a discussion on our critical accounting policies and estimates, see our Annual Report on Form 10-K for the year ended December 31, 2015.

**Distributions**

For the nine months ended September 30, 2016, we paid aggregate distributions of $25.8 million, including $10.4 million of distributions paid in cash and $15.4 million of distributions reinvested in shares of common stock through our distribution reinvestment plan. Distributions declared, distributions paid and cash flows provided by (used in) operating activities were as follows for the nine months ended September 30, 2016 (in thousands, except per share data):

| | Distributions Paid | | | | | Distributions Declared | | Sources of Distributions Paid | |
|---|---|---|---|---|---|---|---|---|---|
| 2016 | Cash | Distributions Reinvested (DRIP) | Total | Cash Provided By (Used In) Operating Activities - Quarter to Date | Cash Provided By (Used In) Operating Activities - Year to Date | Total | Per Share | Amount Paid from Operating Activities/ Percent of Total Distributions Paid | Amount Paid from Debt Financing/ Percent of Total Distributions Paid |
| First Quarter | $ 3,411 | $ 5,001 | $ 8,412 | $ (3,447) | $ (3,447) | $ 8,626 | $ 0.147946 | -/- | $8,412/100% |
| Second Quarter | $ 3,481 | $ 5,145 | $ 8,626 | $ 701 | $ (2,746) | $ 8,810 | $ 0.147946 | -/- | $8,626/100% |
| Third Quarter | $ 3,541 | $ 5,269 | $ 8,810 | $ (1,152) | $ (3,898) | $ 8,651 | $ 0.151233 | -/- | $8,810/100% |

On September 30, 2016, our Board of Directors approved distributions in an amount of $0.00164384 per share of common stock for stockholders of record each day in the period from September 30, 2016 through and including December 29, 2016, payable on October 31, 2016, November 30, 2016 and December 30, 2016.

**Funds from Operations and Modified Funds from Operations**

Funds from operations, or FFO, is a non-GAAP financial performance measure that is widely recognized as a measure of REIT operating performance. We use FFO as defined by the National Association of Real Estate Investment Trusts to be net income (loss), computed in accordance with GAAP excluding extraordinary items, as defined by GAAP, and gains (or losses) from sales of property (including deemed sales and settlements of pre-existing relationships), plus depreciation and amortization on real estate assets, and after related adjustments for unconsolidated partnerships, joint ventures and subsidiaries and noncontrolling interests. We believe that FFO is helpful to our investors and our management as a measure of operating performance because it excludes real estate-related depreciation and amortization, gains and losses from property dispositions, and extraordinary items, and as a result, when compared year to year, reflects the impact on operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses, and interest costs, which are not immediately apparent from net income. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate and intangibles diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting alone to be insufficient. As a result, our management believes that the use of FFO, together with the required GAAP presentations, is helpful for our investors in understanding our performance. Factors that impact FFO include start-up costs, fixed costs, delays in buying assets, lower yields on cash held in accounts, income from portfolio properties and other portfolio assets, interest rates on acquisition financing and operating expenses. In addition, FFO will be affected by the types of investments in our targeted portfolio which will consist of, but are not limited to, commercial real estate assets, principally (i) underperforming multifamily rental properties which we will renovate and stabilize in order to increase rents, (ii) distressed real estate owned by financial institutions, usually as a result of foreclosure, and non-performing or distressed loans, including first- and second-priority mortgage loans and other loans which we will resolve, and (iii) performing loans, including first- and second-priority mortgage loans and other loans we originate or purchase either directly or with a co-investor or joint venture partner.

Since FFO was promulgated, GAAP has adopted several new accounting pronouncements, such that management and many investors and analysts have considered the presentation of FFO alone to be insufficient. Accordingly, in addition to FFO, we use modified funds from operations, or MFFO, as defined by the Investment Program Association, or IPA. MFFO excludes from FFO the following items:

(1) acquisition fees and expenses;

(2) straight-line rent amounts, both income and expense;

(3) amortization of above- or below-market intangible lease assets and liabilities;

(4) amortization of discounts and premiums on debt investments;

(5) impairment charges;

(6) gains or losses from the early extinguishment of debt;

(7) gains or losses on the extinguishment or sales of hedges, foreign exchange, securities and other derivatives holdings except where the trading of such instruments is a fundamental attribute of our operations;

(8) gains or losses related to fair-value adjustments for derivatives not qualifying for hedge accounting, including interest rate and foreign exchange derivatives;

(9) gains or losses related to consolidation from, or deconsolidation to, equity accounting;

(10) gains or losses related to contingent purchase price adjustments; and

(11) adjustments related to the above items for unconsolidated entities in the application of equity accounting.

We believe that MFFO is helpful in assisting management assess the sustainability of operating performance in future periods and, in particular, after our acquisition stage is complete, primarily because it excludes acquisition expenses that affect property operations only in the period in which the property is acquired. Although MFFO includes other adjustments, the exclusion of acquisition expenses is the most significant adjustment to us at the present time, as we are currently in our acquisition stage. Thus, MFFO provides helpful information relevant to evaluating our operating performance in periods in which there is no acquisition activity.

As explained below, management's evaluation of our operating performance excludes the items considered in the calculation based on the following economic considerations. Many of the adjustments in arriving at MFFO are not applicable to us. Nevertheless, we explain below the reasons for each of the adjustments made in arriving at our MFFO definition:

- *Acquisition expenses.* In evaluating investments in real estate, including both business combinations and investments accounted for under the equity method of accounting, management's investment models and analysis differentiate costs to acquire the investment from the operations derived from the investment. Prior to 2009, acquisition costs for both of these types of investments were capitalized under GAAP; however, beginning in 2009, acquisition costs related to business combinations are expensed. Both of these acquisition costs have been and will continue to be funded from the proceeds of our offering and debt proceeds, and not from operations. We believe by excluding expensed acquisition costs, MFFO provides useful supplemental information that is comparable for each type of real estate investment and is consistent with management's analysis of the investing and operating performance of our properties. Acquisition expenses include those paid to our Advisor or third parties.
- *Adjustments for straight-line rents and amortization of discounts and premiums on debt investments*. In the proper application of GAAP, rental receipts and discounts and premiums on debt investments are allocated to periods using various systematic methodologies. This application will result in income recognition that could be significantly different than underlying contract terms. By adjusting for these items, MFFO provides useful supplemental information on the realized economic impact of lease terms and debt investments and aligns results with management's analysis of operating performance.
- *Adjustments for amortization of above or below market intangible lease assets*. Similar to depreciation and amortization of other real estate related assets that are excluded from FFO, GAAP implicitly assumes that the value of intangibles diminishes predictably over time and that these charges be recognized currently in revenue. Since real estate values and market lease rates in the aggregate have historically risen or fallen with market conditions, management believes that by excluding these charges, MFFO provides useful supplemental information on the performance of the real estate.
- *Impairment charges, gains or losses related to fair-value adjustments for derivatives not qualifying for hedge accounting and gains or losses related to contingent purchase price adjustments*. Each of these items relates to a fair value adjustment, which is based on the impact of current market fluctuations and underlying assessments of general market conditions and specific performance of the holding which may not be directly attributable to current operating performance. As these gains or losses relate to underlying long-term assets and liabilities, management believes MFFO provides useful supplemental information by focusing on the changes in our core operating fundamentals rather than changes that may reflect anticipated gains or losses. In particular, because GAAP impairment charges are not allowed to be reversed if the underlying fair values improve or because the timing of impairment charges may lag the onset of certain operating consequences, we believe MFFO provides useful supplemental information related to current consequences, benefits and sustainability related to rental rate, occupancy and other core operating fundamentals.
- *Adjustment for gains or losses related to early extinguishment of hedges, debt, consolidation or deconsolidation and contingent purchase price*. Similar to extraordinary items excluded from FFO, these adjustments are not related to continuing operations. By excluding these items, management believes that MFFO provides supplemental information related to sustainable operations that will be more comparable between other reporting periods and to other real estate operators.

By providing MFFO, we believe we are presenting useful information that also assists investors and analysts in the assessment of the sustainability of our operating performance after our acquisition stage is completed. We also believe that MFFO is a recognized measure of sustainable operating performance by the real estate industry. MFFO is useful in comparing the sustainability of our operating performance after our acquisition stage is completed with the sustainability of the operating performance of other real estate companies that are not as involved in acquisition activities or as affected by other MFFO adjustments. However, investors are cautioned that MFFO should only be used to assess the sustainability of our operating performance after our acquisition stage is completed, as it excludes acquisition costs that have a negative effect on our operating performance and the reported book value of our common stock and stockholders' equity during the periods in which properties are acquired.

Neither FFO nor MFFO should be considered as an alternative to net income (loss), nor as an indication of our liquidity, nor are any of these measures indicative of funds available to fund our cash needs, including our ability to fund distributions. In particular, as we are currently in the acquisition phase of our life cycle, acquisition costs and other adjustments that are increases to MFFO are, and may continue to be, a significant use of cash. Accordingly, FFO and MFFO should be reviewed in connection with other GAAP measurements. Our FFO and MFFO as presented may not be comparable to amounts calculated by other REITs.

The following section presents our calculation of FFO and MFFO and provides additional information related to our operations (in thousands, except per share amounts). As a result of the timing of the commencement of our initial public offering and our active real estate operations and the general and administrative expenses incurred in connection with these events. FFO and MFFO are not relevant to a discussion comparing operations for the two periods presented. We expect revenues and expenses to increase in future periods as we acquire additional investments.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net loss – GAAP | $ (9,399) | $ (6,831) | $ (33,125) | $ (13,201) |
| Depreciation expense | 6,299 | 1,309 | 15,146 | 2,772 |
| FFO | (3,100) | (5,522) | (17,979) | (10,429) |
| Adjustments for straight-line rents | (4) | 2 | 32 | (9) |
| (Gains) losses on cancelable swap, including fair value adjustments | (42) | — | 492 | |
| Amortization of intangible lease assets | 1,915 | 1,097 | 7,794 | 2,415 |
| Acquisition costs | 2 | 3,018 | 6,846 | 5,177 |
| MFFO | $ (1,229) | $ (1,405) | $ (2,815) | $ (2,846) |
| | | | | |
| Basic and diluted net loss per common share - GAAP | $ (0.16) | $ (0.24) | $ (0.58) | $ (0.71) |
| FFO per share | $ (0.05) | $ (0.19) | $ (0.31) | $ (0.56) |
| MFFO per share | $ (0.02) | $ (0.05) | $ (0.05) | $ (0.15) |
| | | | | |
| Weighted average shares outstanding | 58,321 | 28,626 | 57,462 | 18,592 |

**Off-Balance Sheet Arrangements**

As of September 30, 2016 and 2015, we did not have any off-balance sheet arrangements or obligations.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Omitted as permitted under rules applicable to smaller reporting companies.

## ITEM 4. CONTROLS AND PROCEDURES

*Disclosure Controls and Procedures*

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2016. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of September 30, 2016.

*Changes in Internal Control over Financial Reporting*

There has been no change in our internal control over financial reporting that occurred in the quarter ended September 30, 2016 that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

# PART II. OTHER INFORMATION

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

**Unregistered Sales of Equity Securities**

All securities sold by us during the nine months ended September 30, 2016 were sold in an offering registered under the Securities Act of 1933, as amended (the "Securities Act").

**Use of Proceeds**

On February 6, 2014, our Registration Statement on Form S-11 (File No. 333-184476), covering a public offering of up to 100,000,000 shares of common stock in our primary offering and 10,000,000 shares of common stock under our distribution reinvestment plan, was declared effective under the Securities Act. We retained Resource Securities, an affiliate of our advisor, as the dealer manager for our offering. We offered 100,000,000 shares of common stock in our primary offering at an aggregate offering price of up to $1.0 billion, or $10 per share with discounts available to certain categories of purchasers. The 10,000,000 shares offered under our distribution reinvestment plan were initially offered at an offering price of $9.50 per share, which price changed to $8.56 per share on March 31,2016. As of September 30, 2016, our advisor has incurred costs on our behalf of approximately $7.2 million. We terminated the primary portion of our initial public offering on February 6, 2016. We continue to offer shares to our existing stockholders pursuant to our distribution reinvestment plan.

A total of 58.7 million shares, including shares purchased by our Advisor, were issued in connection with our public offering resulting in gross offering proceeds of $579.9 million. From the commencement of our public offering through September 30, 2016, we incurred selling commissions, dealer manager fees, other underwriting compensation and other organization and offering costs in the amounts set forth below. We generally paid selling commissions and dealer manager fees to our affiliated dealer manager, Resource Securities, for the sale of shares in our primary offering and Resource Securities reallowed all selling commissions and a portion of the dealer manager fees to participating broker-dealers. In addition, we reimburse our Advisor and Resource Securities for certain organizational and offering costs (in thousands).

| Types of Expense | | Amount |
|---|---|---|
| Selling commissions | $ | 37,395 |
| Dealer manager fees | | 9,775 |
| Other organization and offering costs (excluding underwriting compensation) | | 6,903 |
| Total expenses | $ | 54,073 |

The net offering proceeds to us from the primary portion of our public offering, after deducting the total expenses incurred as described above, were approximately $525.8 million. As of September 30, 2016, we have used the net proceeds from our ongoing initial public offering and debt financing to acquire approximately $510.0 million in real estate investments. Of the amount used for the purchase of these investments, approximately $11.2 million was paid to our Advisor as acquisition and advisory fees and acquisition expense reimbursements.

**Share Redemption Program**

Our board of directors has adopted a share redemption program that may enable stockholders to sell their shares to us after they have held them for at least one year, subject to the significant conditions and limitations of the program. In its sole discretion, our board of directors could choose to amend, suspend or terminate the program upon 30 days' notice without stockholder approval. Except for redemptions sought upon a stockholder's death, qualifying disability or confinement to a long-term care facility and prior to the time we established a net asset value ("NAV") per share of our common stock, the purchase price for shares redeemed under the redemption program was as follows:

- For those shares held by the redeeming stockholder for at least one year, 92.5% of the price paid to acquire the shares from us;
- For those shares held by the redeeming stockholder for at least two years, 95.0% of the price paid to acquire the shares from us;
- For those shares held by the redeeming stockholder for at least three years, 97.5% of the price paid to acquire the shares from us; and
- For those shares held by the redeeming stockholder for at least four years, 100% of the price paid to acquire the shares from us.

The purchase price per share for redemptions sought upon a stockholder's death or qualifying disability or confinement to a long-term care facility, will be equal to the average issue price per share of the stockholder's shares.

Notwithstanding the foregoing, until we established an NAV per share, shares received as a stock distribution were redeemed at a purchase price of $0 . In addition, the purchase price per share will be adjusted for any stock combinations, splits, recapitalizations and the like with respect to the shares of common stock and reduced by the aggregate amount of net sale or refinance proceeds per share, if any, distributed to the redeeming stockholder prior to the redemption date.

In connection with the approval by our board of directors of an estimated value per share of our common stock of $9.01 on March 29, 2016, the price at which shares are now redeemed under our share redemption program is as follows:

- For those shares held by the redeeming stockholder for at least one year, 92.5% of our estimated value per share, or $8.33;
- For those shares held by the redeeming stockholder for at least two years, 95.0% of our estimated share value, or $8.56;
- For those shares held by the redeeming stockholder for at least three years, 97.5% of our estimated share value, or $8.78; and
- For those shares held by the redeeming stockholder for at least four years, 100% of our estimated share value, or $9.01.

We will not redeem in excess of 5% of the weighted-average number of shares outstanding during the 12-month period immediately prior to the effective date of redemption. Generally, the cash available for redemption will be limited to proceeds from our distribution reinvestment plan plus, if we had positive operating cash flow from the previous fiscal year, 1% of all operating cash flow from the previous fiscal year. These limitations apply to all redemptions, including redemptions sought upon a stockholder's death, qualifying disability or confinement to a long-term care facility.

During the three months ended September 30, 2016, we did not redeem or repurchase any of our shares.

| Period | Total Number of Shares Redeemed (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program | Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program |
|---|---|---|---|---|
| July 2016 | — | $— | — | (2) |
| August 2016 | — | $— | — | (2) |
| September 2016 | — | $— | — | (2) |

(1) All purchases of equity securities by us in the three months ended September 30, 2016 were made pursuant to our share redemption program.

(2) We currently limit the dollar value and number of shares that may be repurchased under the program, as discussed above.

## ITEM 6. EXHIBITS

| Exhibit No. | Description |
|---|---|
| 3.1 | Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Pre-Effective Amendment No. 3 to the Registration Statement on Form S-11 (No. 333-184476) filed December 20, 2013) |
| 3.2 | Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-11 (No. 333-184476) filed October 17, 2012) |
| 4.1 | Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates) (incorporated by reference to the Company's Registration Statement on Form S-11 (No. 333-184476) filed October 17, 2012) |
| 4.2 | Amended and Restated Distribution Reinvestment Plan (incorporated by reference to Appendix A to the prospectus included in the Company's Post-Effective Amendment no. 9 to the Registration Statement on Form S-11 on Form S-3 (No. 333-184476) filed February 16, 2016) |
| 10.1 | Promissory Note by RRE Canterwood Holdings, LLC in favor of Allstate Life Insurance Company, dated April 14, 2016 |
| 10.2 | Promissory Note by RRE Fox Ridge Holdings, LLC in favor of Allstate Life Insurance Company, dated April 14, 2016 |
| 10.3 | Agreement of Purchase and Sale Breckenridge Apartments by and between Holland Breckenridge Apartment Homes, LLC and RRE Opportunity OP II, LP, dated April 25, 2016 |
| 10.4 | Purchase and Sale Agreement by and between RRE Opportunity OP II, LP and Dallas Santa Rosa-476, Inc., dated May 31, 2016 |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 1350 18 U.S.C., as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 1350 18 U.S.C., as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.1 | Second Amended and Restated Share Redemption Program (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed February 27, 2015.) |
| 101.1 | The following information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations and Comprehensive (Loss) Income; (iii) Consolidated Statement of Changes in Stockholders' Equity; and (iv) Consolidated Statements of Cash Flows |

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## SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**RESOURCE REAL ESTATE OPPORTUNITY REIT II, INC.**

| | | |
|---|---|---|
| November 14, 2016 | By: | /s/ Alan F. Feldman |
| | | Alan F. Feldman |
| | | Chief Executive Officer |
| | | (Principal Executive Officer) |
| November 14, 2016 | By: | /s/ Steven R. Saltzman |
| | | Steven R. Saltzman |
| | | Chief Financial Officer |
| | | (Principal Financial and Accounting Officer) |



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